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ROYAL COMMISSION ON BANKING AND CURRENCY

A D D E N D A

INDEX

	Page
Supporting Document re Central Bank, submitted by Acting Premier, Prince Edward Island	1
The Trades and Labour Congress Brief	10
Memorandum submitted by Manitoba Pool Elevators Limited, Saskatchewan Co-operative Wheat Producers Limited, Alberta Wheat Pool	15
Statement submitted by G. A. Elliot, Professor of Political Economy, University of Alberta	22
Memorandum prepared by Special Western Interprovincial Committee	37
Memorandum - W. Russell Maxwell, Dalhousie University	45
Submission by G. G. Coote, M. P.	47
Montreal Board of Trade Memorandum	6[illegible]
Special Session on Exchange and Statistics	6[illegible]
Memorandum by R. E. Knight, Manager, Foreign Exchange Department, Bank of Montreal	106
Brief, British Columbia Bond Dealers Association	107
Lethbridge Board of Trade Brief	139
Farm and Ranch Review - Observations -	157
Memorandum submitted by J. A. Barrette, M.P.	168
Investment Bankers' Association, Supplementary Memorandum	173
The Town of Mimico Brief	185
Memorandum re Municipal Finance, submitted by Horace L. Brittain	19[illegible]
The Canadian Chamber of Commerce Brief	195
Observations with regard to Returns at present required from The Canadian Chartered Banks	199
The Dominion Statistician Memorandum re Canadian Statistics	217

A D D E N D A

A Supporting Document re Central Bank to be
Appended to Brief Submitted by the Acting
Premier to the Royal Commission on Banking,
Charlottetown, Prince Edward Island,
August 31st, 1933.

A Central Bank, which of necessity must be a banker bank, should act as a depository for the banking reserves of the country. It is doubtful, however, if any noteworth economies of centralization could be secured by such a move in Canada, as the reserves of our ten chartered banks are already highly centralized. In connection with this function the central bank should bear the cost of clearance and thus relieve the public of the onerous exchange charge on cheques now made by the commercial banks, which has bee referred to in the main brief.

A central bank, we believe, could take over the duties of a fiscal agent for the Canadian Government without causing undue difficulties by way of re-adjustment. In so far as the Government now has to pay the chartered banks for this service, it is possible that some saving might be achieved by having its own agent, a non-profit-making organization, do the work.

In respect to the matter of issuing notes, a centra bank should take over the note issue of the Government and possibly that of the chartered banks also. Any revenue derived from the circulation of central bank notes in place of Dominion notes ought to be turned over to the Government, but supervision of issue should

remain with the central bank as this would remove any danger arising from political control. Regarding the privilege of note issue now enjoyed by our chartered banks, it is difficult to state definitely whether or not this function should be assumed by the central institution. In countries where there is any doubt as to the solvency of individual banks, the issuing of note ought to be placed in the hands of a responsible central agent. In Canada, however, the strong liquid position of the commercial banks renders undue caution in this regard unnecessary. Furthermore, the banks have a vested interest in note issue, and, from one point of view, it seems decidedly unfair to deprive them suddenly of that particular source of profit. However, in the public interest, it may well be asked why that means of revenue should be allowed to remain in private hands; would it not be preferable to turn it over to the central bank an let the public get the benefit.

The Canadian bankers contend that the removal of the note issuing privilege would necessitate the closin of many branch banks, especially those in pioneer districts, owing to the fact that they would be forced to keep central bank notes, an expensive form of currency, as till money in place of their own notes, which are more or less costless paper. The point is well taken, but the argument loses much of its weigh insofar as the ready availability of central bank notes would permit the member banks to function with a relatively small amount of idle cash on hand. On this particular point we hope the Commission has received sufficient information from other sources to enable

it to settle the controversy.

In approaching the topic of the part a central bank could play in controlling the expansion and contraction of credit in this country, it is essential to note, that, under the provisions of the Finance Act, Canada already has part of the machinery of a central bank. The Finance Act, passed in 1914 as a war measure and made permanent in 1923, provides that the commercial banks may take certain securities to the Department of Finance and thus obtain Dominion notes. The banks then either use these government notes as part of their legal reserve or as a means of issuing their own notes on a dollar for dollar basis.

The administration of theFinance Act is controlled by theTreasury Board; a political body, the members of which usually do not claim to be experts in matters of currency and credit. They charge a stipulated rate of interest to ba nks presenting eligible paper somewhat after the manner in which a central bank re-discounts paper offered by member banks, but there has been no conscious effort on the part of the Treasury Board to control the amount of borrowing by commercial banks through adjustment of the discount rate.

x According to one authority, the maladministration of the Finance Act was responsible for an unhealthful expansion of credit during 1927 and 1928, with the result that Canada unofficially slipped off the gold standard in 1929. In any case, the fact remains that there has

x C. A. Curtis Credit Control in Canada. Proceedings Canadian Political Science Association 1930.

not been a definite policy of currency and credit control in Canada. There has been no systematic attempt to carry out such a program by either the Treasury Board or the chartered banks in whose hands the power of credit creation and contraction now largely resides.

It has been suggested that the monetary machinery created by the Finance Act should be taken over, improved and administered by a central bank, with a view to controlling the amount of currency and credit outstanding according to the needs of the industry and trade. Despite the apparent merits of this proposal, it has many opponents who contend, and not without reason, that a central bank could not exercise the degree of control over the monetary situation which its sponsors claim. The chief arguments of those opposed to a Canadian central bank are as follows: In the first place, the chartered banks are old, well established and powerful institutions, consequently, would pay little attention to the authorities of the new Bank if they attempted to give advice. In the second place the chartered banks have ample resources to meet the financial needs ofCanada for years to come, and would not be compelled to resort to a central bank for additional reserve, thereby rendering control through adjustment of the rediscount rate ineffective. In the third place, if the central bank attempted to force the member banks to rediscount through open market operations, that is, in this case, the selling of securities, it would find itself seriously hampered, if not absolutely forestalled, by non-existance in Canada of a suitable market for such transactions.

Let us examine those objections. It is undoubtedly true that a newly established central bank would lack prestige which could only be developed through actual successful operation for a period of time under the guidance of eminent bankers and financial experts. This handicap, however, is of necessity only temporary. Regarding the impotency of the bank to exercise any control through manipulation of the rediscount rate, one may well doubt the validity of this contention owing to the fact that the banks deemed it necessary to resort to borrowing under the Finance Act during the boom period in the "twenties": (1927-1929).

The last objection, based on the absence of a well developed money market in Canada, is indeed a weighty one. Without recourse to a ready money market a central bank is in a very weak position when it desires to control credit movements. It has been claimed that a period of half a century would be required for the building up of a money market in Canada suitable for open market transactions. Frankly, such a view may be correct, but, at best it is a mere matter of opinion. Those of us who expect prosperity to return and who have faith in the future of our country, hesitate to prophesy so boldly and pessimistically regarding the development of Canada industrially, commercially and financially. The United States did not have a well developed bill market in 1914 when the Federal Reserve System came into operation, but overcame that difficulty within a few years. Why not a similar development in Canada?

In view of the great uncertainty prevalent in

financial and commercial circles caused by fluctuat... exchange rates, it is highly desirable that steps be taken to stabilize the Canadian dollar as far as possible. If a central bank, empowered to deal in foreign exchange, were established, we feel that it could assist materially in overcoming this difficulty. It should be empowered to buy and sell dollars and other currencies in much the same manner as the Bank ofEngland uses its stabilizatio fund to maintain the pound within a narrow range of variation.

Furthermore a Canadian central bank would be in a position to co-operate with the central banks of other countries much more effectively than our ten competing chartered banks can under present circumstances. There is undoubtedly a certain uniformity of policy among our present commercial banks which is promoted largely through the Canadian Bankers' Association, but a central institution at the head of our financial system would be able to decide upon a course of action much more promptl than the members of a competing system acting jointly. Furthermore, a central bank would command more respect, would enjoy more prestige, than a number of independent banks.

From the standpoint of international co-operation a central bank in Canada could assist in overcoming the so-called "international dilemma" in central banking. By way of illustration, suppose the central bank in one coun try desires to curtail the expansion of credit by raising its rediscount rate, it finds that the increase in rate causes a flow of funds from abroad which result nullifies

the central bank's action. On the other hand, if the rate is lowered in order to encourage the internal expansion of credit funds tend to flow abroad when earnings are larger. In the absence of a world bank to control such situations, the most effective arrangement is co-operation among the central banks of leading countries. Canada, as a great and growing commercial nation, should be equipped with the necessary machinery in the form of a central bank to act jointly with similar institutions of other countries in respect to this problem.

Owing to overgrowing burden of public debts and the increasing complexity of governmental financing, the time has undoubtedly arrived when it is essential to establish some form of organization more or less perman ent in character to give expert advice to the government in matters of finance. This is especially desirable in a "young" democratic country like Canada with its frequent changes of governmental control under the party system. This function could be executed to advantage by the staff of a central bank. In fact, with their comprehensive knowledge of financial conditions nationally and internationally, it would seem that the officers of such an institution could perform this task more satisfactorily than any other body.

In addition, the central bank could conduct economic research on a large scale and therefore be in a position to furnish important information not only to the government and to the member banks but to the public as well. In the future more attention must be given to economic planning

if we are to avoid a repetition of industrial and commerc stagnation such as that experienced during the past three years.

We by no means contend that a central bank for Canad is to be looked upon primarily as a cure for the present depression. Rather, it is to be regarded as an instituti founded for the purpose of consciously controlling the currency and credit conditions of the country in the interests of the public as a whole, not for the benefit of any particular class. Though realizing the many important functions which a central bank could perform, my desire is to stress the fact that one of its prime objectives should be the controlling, as far as possible, of extreme fluctuations in the price level and thus avoiding or at least greatly mitigating the severity of business depressions by taking timely action. While recognizing the handicaps under which a newly established central bank in Canada would operate, there do not seem to be any permanently insurmountable obstacles in the way of its successfully achieving the purpose for which it would be founded. Conscious, systematic credit control is highly desirable in this country, and, since neither the Treasury Board nor the chartered banks have seen fit to assume this responsibility and show no indication of doing so now ot at any time in the future, it seems only reasonable to contend that a central bank, which could perform this function to greater advantage than any other institution, should be established in Canada at the next revision of the Bank Act.

In conclusion, we wish to emphasize the point that,

in the event of the establishing of a central bank in this country, it should be absolutely immune from political influence on the one hand and control by the commercial banks on the other. In other words, those responsible for the administration of the bank ought to be free to pursue a policy unhampered by political pressure or coercion by private financial interests. The setting up of such a body is indeed a difficult task. Nevertheless, if sufficient remuneration were offered and reasonable tenure of office assured, persons with adequate training and a sense of responsibility to the public should be attracted to central banking as a profession. If a central bank were established in this country, vested with the powers outlined above, and placed in charge of such a body of officials, we feel that it would constitute an important step towards the perfecting of our already, in many respects, admirable banking system, and would be in the best interests of this Province and the entire Dominion.

Respectfully submitted,

W. J. P. MacMillan,

Acting Premier for Committee

THE TRADES AND LABOUR CONGRESS OF CANADA

OTTAWA, ONTARIO,
September 12, 1933.

To the Royal Commission on
Banking andCurrency,-

Sirs,-

The banking system and the manner in which its functioning is reflected in regularity of employment and in the orderly development of the country is of no less importance to the wage earners than to any other group. While laying no claim to expert knowledge of the details of banking practice, yet [redacted] do consider that our organization is competent to express views on some of the broad principles of the system and to place before you for sympathetic consideration a number of suggestions w[illegible] without undermining the stability of the financial stru[illegible] of Canada would, subject to proper methods being evolved to give effect to them, help toward the restoration of prosperity.

Before proceeding to deal with these it is perhap[illegible] advisable to make clear on whose behalf this brief is presented and the authority for the statements contained therein. The Trades and Labor Congress of Canada is national federated body with more than fifteen hundred branches (trade unions) located throughout the length and breadth of thisDominion, which for the past forty [illegible] years has been recognized by governments and public bodies as the authoritative medium through which the organized workers give expression to their views on matters pertaining to Federal legislation and of similar

national interest. Its policies are decided from year to year at its annual conventions. It is a non-politic body, its membership being composed of men and women of different political beliefs and opinions. It should not, therefore, be confused with any political 'Labor' party whose membership is naturally confined to those of one particular political belief and in which membership others than wage earners are included.

The desire for a full investigation into the banking system of this country was first expressed by our organizations in a resolution adopted at the 1926 convention, which followed the crash of the Home Bank, involving serious loss to its depositors. Developments since that time have demonstrated that while the likelihood of any similar situation arising has been minimized, both through mergers of weaker banks with others having greater resources, and by the stiffening of government inspection of banks, yet the need for more fundamental reform is still as necessary.

Under existing legislation revision of the Bank Ac by Parliament is provided for at ten year periods, but with the rapidity of change in economic conditions, both nationally and internationally, we suggest that a shorter period is advisable.

Believing that the banking and credit system, controlling as it does the economic destiny of practicall the entire community, is in its nature and manner of functioning actually a public utility and that the priv banking system, as now constituted, though custodian of the people's money and savings, is not directly responsibl

to them for its action but works primarily for profit and dividends for shareholders, often with very little consideration for the general public welfare, the Trades and Labor Congress of Canada supports the principle of nationalization of the banking system.

As forward steps toward this end we support the establishment of a central bank, believing that this is essential to prevent the wide fluctuations of exchange rates and to bring under state control the power to extend credits commensurate with the required needs for the development of this country.

While we understand that the present Bank Act aims to limit interest rates charged to seven per cent, in practice this is not always so. The absence of penalties for charging higher rates and the ease with which compliance with this provision of the Act is overcome, shows the necessity of amendments thereto. The lowering of interest rates paid to depositors should be made to reflect itself in easier credit at lower rates than currently charged.

The stagnation of the building industry can be largely attributed to the difficulties experienced by prospective investors in securing mortgage money. Especially in the case of home owners this should be available at all times at low rates of interest and for much longer than the existing five year periods. As one means towards making money more freely available for this purpose we would suggest that trust and loan companies should be able to discount their mortgages with the proposed central bank or some similar government authority.

The manner in which trust and loan companies have developed their business along parallel lines to that of chartered banks prompts the suggestion that, under prope safeguards, chartered banks might be given the privilege of making loans to their customers for home building purposes, especially where the amount of the mortgage would not involve exceptionally large sums.

If the private banking system is to be retained steps should be taken to maintain a certain amount of free competition by the prevention of interlocking directorates which places the national control of credit in too few hands.

Loans to brokers for stock market purposes leads speculation and inflation of values and therefore should be either prohibited or more stringently regulated. Control also should be exercised over the speculative investment by banks in industrial concerns where the same is likely to result in over-capitalization.

The financing of public works undertaken or sancti by the Federal Government is today being retarded becau of the tax burden which the payment of interest inv To overcome this we suggest that where the public would be enhanced by carrying out any public undertakin that it should be made possible for the Government to use its own credit by the additional issue of non-interest bearing certificates (New Currency) to the amou involved, subject to a percentage of this being withdraw from circulation each year proportionate to the decrease value of the asset created.

In conclusion: On the social side, employees

of banks should be given the right of association in organizations of their own choosing; the principle of collective bargaining in respect to conditions of employment established and fully protected and to provide means of amicable settlement of any disputes that may arise on such matters, the banking institutions brought within the jurisdiction of the Federal Industrial Disputes Investigation Act.

Respectfully submitted on behalf of the
Trades and Labor Congress of Canada.

Tom Moore, President,

P. [redacted] Draper, Secretary-Treasurer,

MEMORANDUM TO THE ROYAL COMMISSION ON BANKING AND FINANCE, SUBMITTED BY MANITOBA POOL ELEVATORS, LIMITED; SASKATCHEWAN CO-OPERATIVE WHEAT PRODUCERS LIMITED; ALBERTA WHEAT POOL.

The wheat Pools of Manitoba, Saskatchewan and Alberta are co-operative marketing associations, also operating elevator facilities, representing an investment of over thirty million dollars contributed by over a hundred and forty thousand members.

It is not the intention of our organizations to mak any representation to your Commission on the technical aspects of the inquiry you are pursuing. The scope of your inquiry has been broad enough, however, to include evidence dealing with the general condition of agricu in the Dominion, and we wish to submit a few facts ... serious situation of our members and Western far... gen... ly, engaged in the production of grain and other farm products.

While unprecedented crop failures, due to drought and insect pests, extending over wide areas have added materially to the distress of our agricultural community, the disasterously low prices of farm products have been the major factor in creating a crushing burden of debt, swollen by high interest charges, which is the outstanding featu... of the depression affecting the lives of our members and their families.

Decline in Agricultural Revenue

The estimated gross annual agricultural reven... the three prairie provinces for the three years 1926, ... d 1928, as given in theCanada Year Book, averaged $318,589,667 per year. In 1930, as compared with the

average of the three previous years, the value of agricultural production had fallen to four hundred and forty eight million dollars. In 1931 there was a further fall to less than three hundred million dollars, and in 1932 to slightly over two hundred and seventy million dollars. In those three years, 1930, 1931 and 1932, there was a shrinkage in the gross revenue of prairie farmers as compared with the three years 1926, 19[illegible] 1928, amounting to over a billion, four hundred and thirty-nine million dollars.

Contrary to general opinion, returns from other branches of agriculture were fully as unsatisfactory as returns from their grain, and producers made a desperate attempt to offset in some measure the shrinkage in revenue through low prices by increased production of grain. The acreage in field crops in the prairie provinces increased from thirty-six million acres, which had yielded gross returns of over six hundred and twenty million dollars in 1926, to over forty-two million acres in 1932. The gross returns in 1932 was slightly over one hundred and ninety-two million dollars. The

[illegible]ease in acreage amounted to 16.3 per cent

[illegible]venue amounted to 69.1 per cent

This appalling loss in revenue, without any corresponding reduction in the fixed charges which the farmer has to meet or the prices of the goods he has to buy, has reduced tens of thousands of our most efficient and hard-working farmers to insolvency, although special legislation by our provincial governments and relief extended by Federal and Provincial authorities has enabl

them to stay on their farms, in which they have little or no equity. While much valuable evidence has been submitted to your Commission by farmer organizations and others who have made a careful survey of actual conditions on our prairies, we regret that there was a dearth of testimony by individual farmers, due to their reluctance to disclose their financial conditions, and diffidence in airing their troubles before a public tribunal. We believe, however, that the g eneral stagnation of trade in all classes of business depending on r eturns from the Canadian West is sufficient proof of the deplorable state in which Western agriculture finds itself.

Raising Price Levels

We suggest to your Commission as a self-evident fact that there must be a substantial advance in the level of prices received for agricultural products and a scaling down of debts, before there can be any hope of r eturning prosperity to the prairies or any substantial improvement in Canadian industry.

Intermediate Credits

The efforts of banking insitutions to provide facilities for agricultural operations on the same basis as commercial transactions by a system of short term credits have shown an inherent weakness in our financial institutions from the standpoint of agriculture. We believe that this defect in our financial system has been at least partly responsible for the twoo free extension of credit during periods of fair returns for farm products, followed by a drastic contraction of credit during periods of low prices.

Banks throughoutWestern Canada make practically

all advances to farmers on a promise to repay within three months, notwithstanding that in many cases the banker and the farmer know at the time the loan is made that there is little, if any, possibility of its being repaid within the period stated. Although in actual practice these loans may be renewed, the instability of operation forced on the producer by uncertainty as to the time of repayment and possible enforced realization is not conducive to sound farming practices; while in periods of credit contraction, enforced realization of these short-term credits, if at all widespread, not only depreciates the value of the security to the lender and the borrower but may disrupt the market for the whole commodity involved. We are confident that your Commission has given these facts due consideration and recognizes the need of an intermediate credit system other than that provided by private mortgage companies, to meet the financial requirements of Canadian agriculture.

Excessive Interest Rates

We do not consider it necessary to stress to your Commission, in view of the evidence submitted in Western Canada, the burden placed upon Western agriculture by high interest rates, and the practice followed by the banks of compounding interest every three months. While the Bank Act specifies the maximum rate of interest that may be charged, it does not provide any penalty for breach of this provision and we suggest for your consideration that adequate penalties should be provided for any [illegible] of the maximum rate of interest provided by the Act.

ENCOURAGING FARM STORAGE

Canada's wheat crop reaches the world market normally over a period of twelve months following its

production, but seventy-five per cent of the grain marketed is delivered from the farm into interior and terminal storage within a period of three months from the time it is harvested. Owing to the demands of creditors the majority of farmers are obliged to deliver their crops as soon as possible after harvest, a smaller percentage delivering all or the bulk of their grain into storage and borrowing money against it, very little grain outside of seed and feed requirements being stored on the farm. There are other factors besides the necessity of turning the grain into cash which are partly responsible for the rapid movement of grain from the farm; greater economy in handling the grain direct from the threshing machine or the combine to the elevator; difficulties of hauling grain in winter months often over rough roads or through deep snow, and cost of granaries on the farm, etc. If there were unlimited markets for Canadian wheat and farmers could be assured after sowing their grain in the spring of harvesting a crop in the fall, the speediest possible delivery of their grain after threshing might be the most satisfactory method to follow. The situation now existing in the Canadian West, however, brings out the necessity for adjustment to present conditions. There has been an over-expansion of elevator facilities and the acquisition of otherwise unnecessary additional railway facilities to take care of a peak load condition, and there are in terminal, interior, and country elevators in Canada to-day approximately two hundred million bushels of wheat on which carrying charges must be paid, while thousands of the men who grew the grain have empty granaries on their farms and little or no crop from their year's operations. We believe that reserves of grain should be built up on the farms and suggest that

your Commission should consider whether the present powers of the banks to lend on the security of threshed grain are adequate, and if so what can be done to encourage an orderly flow of grain out of the practically free storage in the farmers' granary into the more costly storage of interior and terminal elevators.

Central Bank

The establishment of a Central Bank in Canada involv technical questions which our organizations do not consider themselves competent to judge, but it would appear from the evidence submitted to your Commission that a Central Bank; free of domination by the commercial banks, would be of considerable benefit to our own and the other industries of the Dominion.

Critics of our banking system declare that it is not in the best interests of Canada that ten large banks should be practically the sole arbiters of whether credit shall be free or restricted; that is, whether prices within Canada shall rise or fall. Ten private institutions interested primarily in earning profits for shareholders must, from time to time, find the private interests of their respective institutions in conflict with the welfare of the country as a whole; occasions when it may be in the interests of the banks to restrict credit, although at the same time the welfare of the country requires not a restriction but an expansion of credit; and vice-versa.

In all questions requiring international action, including stabilization of foreign exchange, it would appear that one central authority should and would provide more adequate and satisfactory co-operation with the central

banking authorities of other countries than can possibly be provided by ten separately owned and operated institutions. We, therefore, endorse for our organizations recommendations submitted to your Commission favouring the establishment of a Central Bank for Canada.

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STATEMENT SUBMITTED TO THE CANADIAN ROYAL COMMISSION ON BANKING AND CURRENCY
by

G. A. ELLIOTT, PROFESSOR
OF POLITICAL ECONOMY,
UNIVERSITY OF TORONTO

1. A Central Bank

Economists in eastern Canadian universities, especially Professor Plumptre of the University of Toronto and Dr. Curtis of Queens University, have studied the proposed Canadian Central Bank more thoroughly than the writer, who can hope to add little that is original to the discussion. Professor Hewetson of this department has already submitted a statement in this connection. This section, then, will be confined to a brief and therefore dogmatic statement.

1. Need for a central bank

It has become generally recognized that the short run profit motive does not always lead to appropriate control of the aggregate volume of credit within a country. In Canada advances under the Finance Act have in the past been made, for the most part, according to the wishes of the chartered banks who reasonably and legitimately seek profit and who do not and cannot be expected to take into consideration the effects of their operations in contracting or expanding the total volume of credit in the country. Moreover, even while Canada nominally adhered to an international gold standard, the provisions of this act nullified the effects on bank reserves of a flow of gold into or out of the country. In consequence, in our present banking structure there is no agency either conscious or semi-automatic which does or can implement effectively

any monetary policy whatever, whether it be adherence to an international standard or domestic management. Either a central controlling agency, which will hereafter be termed a central bank, should be established, or else the Finance Act should be repealed and adherence to an international standard made automatic by assuring unconditional convertibility of Dominion notes into gold or some foreign currency at a fixed price. The valuable facilities afforded by the Finance Act and the external monetary chaos which prevails at present are strong arguments from the long run and the short run points of view for adopting the first alternative.

2. Powers of the central bank

The central bank should be given adequate powers for controlling the volume of credit through control of the amount of legal tender available for the reserves of the chartered banks. It should be given power to engage in the purchase and sale in the open market of suitable types of securities, including foreign bills. It should be empowered to loan directly to the banks, to vary the rate charged on advances to the banks and to refuse such advances if that is necessary in the enforcement of its policy.

3. Personnel

It should have a special personnel separate from the Dominion Department of Finance. The management should include individuals with theoretical training and practical experience in banking who are not so intimately associated with either banks or borrowers that their motives may be open to suspicion. The management should

be freed from the danger of political removal or ignorant interference by providing for a long term of office. The writer doubts very much whether representatives of conflicting interests can be expected to reach compromise decisions which are in the public interest. A board so composed, however, might be able to agree upon the selection of persons to positions of control. The personnel problem is both important and difficult.

4. Legal restriction or administrative judgment

The problem of differentiating between those matters which should be regulated by statute and those which should be left to the judgment of the controlling authorities is a difficult one. In operating a new institution -- or rather an old institution in a new environment -- a wide margin of uncertainty must at first exist as to the quantitative effect of the control measures adopted, and the rapidity with which they will have their appropriate effects. Even when a considerable volume of experience has been accumulated a very wide margin must be left free for the exercise of business and administrative judgment. A rigid definition of powers, and a statement, in the very broadest terms, of the appropriate objectives of the central institution should probably be passed by Parliament, but detailed regulations as to the precise way in which the powers entrusted to the central bank authorities are to be used should not be embodied in the statutes.

5. Policy

The Commission, however, may give valuable and

influential advice as to the appropriate policy for the Canadian central bank. The documents collected last year by the Canadian Monetary Committee in anticipation of the Imperial Conference at Ottawa will, undoubtedly, be placed at your disposal. It will be unnecessary, then, to repeat in this statement the representations which the writer made at that time concerning Canada's general monetary policy.

6. Information

The central bank authorities should be provided with the fullest possible information concerning changes in prices, production, employment, interest rates, security prices, sales and issues, and bank deposits and loans, classified by type and geographical locality. This will necessitate the provision of a modest but exper statistical staff, and the closest co-operation with the Dominion Bureau of Statistics and the chartered banks. In particular the chartered banks should be required to make available to the central bank authorities, promptly and at frequent intervals, whatever information is relevant to the formulation of a central bank policy. It should be recognized that for some time at any rate one of the most important duties of the central bank must be to investigate the quantitative effects of the control measures which it undertakes.

II. Provision of a Tabular Standard for Deferred Payments

A tabular standard for deferred payments has been advocated by a long series of economists, among others, Scrope, Jevons, Marshall and Knibbs. In view of the unsettled monetary conditions in the external world and

lack of experience with central bank control under Canadian conditions, the writer has little hope that monetary stability can be achieved at once. There are signs at present in western Canada that certain sections of the borrowing and the lending public would swelcome any measure designed to diminish, to some extent, the risk of both borrower and lender in a period of unstable prices. Certain machinery and oil companies, for example, have adopted the device of varying the principal of debts in accordance with changes in the price of wheat. There is some hope, then, that some borrowers and lenders might voluntarily write into their contracts a provision for varying the principal and interest of debts in accordance with a price index, or series of price indexes, if the Dominion Government would undertake to compile and publish official indexes for this purpose. If the indexes were extended backward for a number of years there is even hope that [illegible] might [illegible] in some cases a basis for the voluntary [illegible] debts which would preserve both debtor and creditor equities in the property given as security for loans. It is not to be expected that this method would be universally adopted within [illegible] of time but official regognition of the method under present circumstances, would materially hasten its adoption.

III. Sources of Friction Between the Banks and Agricultural Borrowers

The writer wishes, perhaps unnecessarily, to support some of the conclusions of Dr. D. A. MacGibbon, in the report of the Alberta Commission on Banking and Credit. This support is based on less formal observations made more

recently than 1922.

1. Discounting.

In the agricultural communities in Western Canada ther is a widespread dislike of the ordinary banking practice of discounting the note of the borrower. The borrower frequentl wishes a round sum. He believes, moreover, that the practic of discounting is a somewhat underhand method of exacting a higher rate of interest than the rate of discount actually named. He has frequently an exaggerated notion of the actua difference between 8% interest and 8% discount. The task of allocating blame for this source of friction is a useless and thankless one. If the situation is to be remedied, either the borrower's aversion to the practice must be removed or the practice must be changed. The writer has discussed the matter with agricultural borrowers on more than one occasion and is convinced that the first solution is impossible. It may be that the bankers are equally convince in their belief that discounting is necessary. In that case a voluntary solution of the problem would seem impossible.

2. Maximum interest rate.

The agricultural borrower believes, probably with som reason, that the discounting process allows the banks legall and safely to avoid the intention of Clause 1, Section 91 of the Bank Act which fixes the rate that the banks can [illegible] [illegible]. The distinction between a legally recoverable max rate and a legally chargeablemaximum rate is too subtle to be readily accepted by the borrowing public. Either this clause should be deleted or a maximum chargeable rate should be enforced. This maximum rate might well be somewhat above that which the Commission considers reasonable and

should be reviewed and, if necessary, changed at sho intervals than ten years. It is argued, of course, that th imposition of a maximum rate, lower than that charged some borrowers at present, would result in normal times in a cl scrutiny of risks than a smaller total volume of loans to farmers. In an area of comparatively recent settlement, wh uncertainty is great and where banker and farmer alike are subject to waves of extreme optimism, this result probably would be desirable. Consequently this argument should be regarded as favoring the imposition of a maximum interest charge if it could be enforced effectively. The problem of enforcement would not be a simple one.

3. Frequent compounding of interest.

The process of discounting is intimately associated in the mind of the farmer with the present bank practice of drawing notes for three months, even when it is expected th the borrower will be unable to repay the loan for a much longer period, and of compounding interest at each renewal. The bankers, of course, state that the short period is necessary to safeguard the loan if the circumstances of the borrower should become less favourable. It would seem mor reasonable to allow the banks to demand the security they d ed adequate at the time the loan was made so that the note might be drawn to mature at a convenient date. The freque compounding of the interest has a somewhat usurious appear even to a disinterested person and is resented by some farm even apart from the fact that it makes the cost of a give loan more difficult to compute and even somewhat uncertai The frequent renewals, moreover, must be costly to the bank and are most certainly costly to the farmer who, ordinarily,

is loss conveniently situated with respect to his bank than is the merchant or manufacturer.

4. Agricultural advice by local managers.

In periods when the banks desire to increase th loans to agriculture, many farmers believe that encour ment to borrowers may be given most effectively by a reduction in the interest rate. In the past, advice t farmers by local managers to undertake operations involving additional borrowing has sometimes had disast rous results and has led to lasting ill feeling and dis trust.

5. General regulations.

Some hardship in individual cases seems to be occasioned by the interpretation by local managers of blanket orders issued from time to time with the purpos of discouraging specific types of loans. This difficult is inherent in the branch bank system but forms the basis for stories of injustice which grow in the telling. The banks should be encouraged to provide for reasonable interpretation of such orders. Occasional public statementsby bankers of their general policy might do much to destroy the feeling that action by head offices, of the offices of the bank superintend is often arbitrary and unreasonable.

6. A permanent bank commissioner.

The financial power of the local bank manager cannot easily be overestimated. Isolated cases of injustice are bound to arise. Moreover, there is little doubt that the banks have agreed, at least informally, to adopt certain uniform practices. Where such agreements exist, supervision in the public

interest is frequently desirable. The Commission will be in a position to decide whether the volume and importance of the complaints received are sufficient to justify the appointment of a permanent banking commissioner with power to investigate specific complaints.

7. Intermediate credit.

In the western provinces there is a need for agricultural loans for a somewhat longer period than the banks at present wish to make but shorter and sometimes smaller in amount than the ordinary loan on a mortgage or bill of sale. This need for "intermediate" credit arises in two distinct ways. In the first place a loan [illegible] or three years may be required to meet part of the cost of clearing and "breaking" new land, or to begin or increase a herd of livestock, or for other similar purposes intimately associated with the conditions of pioneer agriculture. Secondly, there are certain areas in the western provinces which since settlement have proven to be unsuitable for cereal farming, in other areas poor crops or crop failures occur from time to time but, on the average, in the long run, farming is profitable. It has come to be recognized, in Alberta at any rate, that the former type of district constitutes a problem of settlement and rehabilitation, not a problem of credit. On the other hand, farmers in the second type of district will occasionally be unable to pay their loans at the end of the crop year. If they are to continue farming they must be financed from one year to the next or for even longer periods. From a social point of view it would be more economical if the intermediate type of loan could be made by the chartered banks themselves, or by some institutions associated with them.

(Page 30A follows)

MEMORANDUM PREPARED BY SPECIAL WESTERN INTERPROVINCIAL COMMITTEE FOR THE ROYAL COMMISSION ON BANKING AND CURRENCY.

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The evidence laid before your Commission in Western Canada makes it unnecessary for us to go into details of the distressed economic and social conditions now prevailing in the three Prairie Provinces; but in order to furnish a base for the proposals contained in this memorandum, it is necessary that we review briefly the salient features of these conditions:-

There are two major factors in the situation;

1. The acute decline in agricultural prices.
2. The results of crop failures from natural causes in certain areas in the three provinces.

These two factors require separate consideration and different remedial measures. As tholatter is not a matter of finance, but of relief, we deal solely with the former and its consequences.

Data prepared by the Dominion Bureau of Statistics at Ottawa show that as between 1928 and 1932 the annual gross agricultural revenue of the three provinces fell from $843,153,000 to $273,738,000, the revenue of 1932 being thus approximately one-third of that of 1928. As compared with 1928 the cumulative loss in gross agricultural revenue in the four years in the three provinces amounted to $1,711,313,000. The decline represents a loss of 67½ per cent in farm income; the western farmer today has only 33 cents of gross income for every $1.00 of such income in 1928.

That this decline in farm income is not due to

decreased production is shown by the record of yields, prices and values also published by the Bureau of Statistics. With 1926 = 100, the figures for 1932 are:

Manitoba: Price, 33.1; Yield, 78.3; Value 25.9

Saskatchewan: Price, 27.8; Yield, 93.1; Value 25.9

Alberta: Price, 31.3; Yield, 131.6; Value 41.2

These figures make it plain that, fundamentally, the decline is a price phenomenon, and not one of production.

As the declining farm income has failed to cover maintenance and operating costs and living expenses, debts have increased; taxes are unpaid; and farm equipment has seriously depreciated. In consequence the financing of agriculture has become exceedingly difficult, while indebtedness in a large and growing number of cases is in excess of the farm capacity to pay. Already about fifteen per cent of the farm owners are burdened with an indebtedness in excess of reasonable valuation of the production of their farms.

To the problem created by price factors for western Canada, there are added the factors of variability in conditions within the important agricultural regions and the considerable variability of production on the same farms from year to year, which affect the particular capacity at any given time to pay, and which therefore need to be considered with regard to financial contracts.

The condition of agriculture has, of course, vitally affected all our public and business institutions; and gravely menaced many social services. The fundamental problem, therefore, faced by the West, is the restoration of the farm income and the economic stability of agriculture.

A POLICY OF DEFLATION

It is generally agreed that agricultural prices lie at the root of the universal depression and that the first step toward economic recovery is to raise the level of agricultural prices. It should, therefore, be the policy of the Dominion Government to adopt measures designed to raise the level of agricultural prices to a point which would restore the farm income, and so far as necessary to co-operate internationally to that end.

REDUCTION OF DEBT

There are in the western provinces, however, many farmers who will not be able to repay their debts even with enhanced prices, because of the cumulative losses of the last four years, together with the accumulation of arrears of interest and other charges.

The ordinary process of liquidation of such debts must result in driving these people from their land, and vesting in the hands of their creditors large areas in the country and large quantities of unsaleable machinery and livestock. No adequate survey has been made to enable this Committee to determine just what percentage of [illegible] are in this position. The figures submitted by Professor Allen in his testimony before your Commission at Saskatoon indicated, however, that it is extensive.

This Committee believes that some solution of this problem must be evolved which will keep these debtors on the land and thus enable them to pay as much as, or more than, may be realised under the ordinary process of liquidation. We suggest, therefore:-

1. That the Bankruptcy Act be amended so as to provide facilities by which insolvent farmer debtors may secure cheaply and quickly a composition and extension of their debts, secured and unsecured, which will be binding on all their creditors when approved by the appropriate court.

2. That in cases where bankruptcy proceedings canbe avoided power be given to the Debt Adjustment Boards of the respective provinces to enable such adjustments and [illegible] in the matter of farm debts as in their discretion are fair and equitable.

AGRICULTURAL CREDITS.

There is a grave need existing in western Canada for credit for essential farming operations at a rate of interest commensurate with the earning capacity of the farm. Data submitted by the Government of Alberta in their memorandum presented to your Commission, with regard to the financing of binder twine, indicate the existence of this credit need and that it is not being met by the chartered banks, although the experience demonstrates that the advances come within the limits of sound banking. If, however, this form of agricultural credit is considered more hazardous than is consistent with commercial banking, we suggest the establishment of a credit institution adequate to the needs of agriculture in this respect.

It is true the Province of Manitoba had an unfortunate experience with rural credits, and that the Province of Alberta also ran into difficulties with a similar scheme. We believe, however, the changes made in the Alberta plan show conclusively that a sound and suitable source of credit can be established. We suggest the setting up of a separate

agricultural credit corporation which should operate on a non-profit basis, the capital structure of which would be made up by contributions from the Dominion and Provincial Governments, together with some contribution from the borrower, sufficient to ensure the necessary local co-operation. Credit from such an institution should be made available at the lowest cost as a matter of public policy.

BANKING PRACTICES.

Evidence submitted to your Commission indicated widespread dissatisfaction with certain banking practices, particularly with regard to interest charges and the making of advances repayable in three months. On these items we recommend:

1. That the Banks should be urged to loan to borrowers on terms of repayment likely to coincide with the realization from the venture for which the money was borrowed.

2. That as parliament intended Banks should not be permitted to charge a rate of interest in excess of seven per cent, that intention should be clearly expressed in an amendment to the Bank Act limiting the capacity and power of the Banks accordingly and imposing penalties for any breach or attempted breach of the restrictions so enacted.

MORTGAGE PAYMENTS.

In past years when crops and prices were good and a farmer desired to prepay his mortgage indebtedness, he was precluded from doing so because by the terms of the contract the payment was not due. This has had the result of placing some farmers today in danger of losing their

farms because of their present inability to pay. We suggest that provision be inserted in the Dominion Interest Act to the effect that in the case of all land mortgages the mortgagee must accept, when offered, prepayment of any or all outstanding principal and interest on any prepayment date upon the mortgagor giving three months' notice or paying a bonus of three months' interest.

ADVANCES ON SECURITY OF GRAIN ON THE FARM.

Eighty per cent of the grain marketed in western Canada is delivered from the farm into elevator storage within three months after harvest, although it takes the balance of the yearto find its way out of Canada to the final market. This rapid movement has caused an excess of investment in transportation and grain handling equipment, all of which is largely due to the practice of making farm obligations payable forthwith after harvest. The pressure of deliveries can be reduced if the banks will lend on the security of threshed grain on the farm.

We suggest that the banks be empowered and encouraged to lend to farmers on the security of their threshed grain on the farm, and appropriate amendments made to the Bank Act, if necessary. The risks of fire and theft should be covered by insurance to the end that the banks may have the maximum security on the grain.

PUBLIC FINANCING

Evidence was presented to yourCommission showing the cost of financing unemployment and drought relief. We respectfully urge that loans for such an essential public service should be made available at a rate not exceeding

one per cent over the discount rate of the Finance Department.

In view of the drastic decline in the revenue of the Provincial Governments, notwithstanding heavy increases in taxation, we submit that a voluntary, or if deemed necessary to accomplish the purpose, an arbitrary conversion of outstanding bonded indebtedness at a substantially lower rate of interest, should be undertaken on a national basis.

We believe that in the public interest it is necessary to create machinery for the purpose of coordinating to the fullest possible degree the process of public financing.

EXCHANGE

The importance of the problem of exchange is shown in the payment by the prairie governments during the last two and one-half years of $5,409,124 in exchange premiums on their bonded debts. This heavy drain on provincial finances has added materially to the difficulties of the respective governments. It is estimated that sixty per cent of the sum so paid was collected by Canadian holders of the bonds. We suggest that steps should be taken to prevent Canadian bondholders from demanding payment in other than Canadian funds, and that the buying and selling of foreign exchange be under the control of a Central Bank.

Respectfully submitted on behalf of the Committee.

J. I. Hull,

Members of the Committee.	J.F. Perceval	Edmonton
	M. Porter	Calgary
	R. H. Milliken	Regina
	P. McAra	Regina
	Prof. W.Allen	Saskatoon
	J. T. Hull	

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MEMORANDUM FOR THE ROYAL COMMISSION ON CURRENCY AND BANKING IN CANADA

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Sirs:

I wish to say at the outset that I think the chartered banks have, on the whole, served the people of Canada well. My criticisms of our monetary and banking system refer not so much to the part played by the banks as to that played by the Dominion Government. They center around the Finance Act, or rather that part of it which provides for advances to the banks at times when there is n national emergency.

My objections to this arrangement are, 1. That it undermines the foundations of the monetary standard, by permitting the expansion of the Dominion note issue without a ny increase in the bullion security behind it; [illegible] when that bullion security is decreasing. There is no assurance, either, that this unusual procedure will be justified by fundamental economic conditions. 2. That it puts the management in thehands of the wrong people. Members of the Treasury Board have no special qualifications for problems of this sort; they change from time to time with the vagaries of politics and they may be influenced by other than economic considerations; while the Department of Finance is an administrative organization. 3. It holds out no hope for the development of a monetary policy. I may say that I do not by any means cherish the hopes that some people seem to do from the development of this. But I think it can contribute something towards the contro of our economic life. In any event I think it is going

to be tried - indeed it is even now being tried - and since the problem is international by its nature the effects of any monetary policy will be felt internationally. Canada should be prepared to play her part in all this; but at present we have no machinery.

Some of these objections would be met by the simple repeal of some sections of the Finance Act. But the Act was valuable during the crisis of the War and I believe some such bulwark should be present even in normal times to lend legitmate assistance to our banking institutions. I am thus led to favor the creation of a Central Bank, which would assume the functions now exercised by the Dominion Government under the Finance Act, while putting the management of the business into proper hands, and make possible, with the growth of knowledge and experience the development of a monetary policy. This bank would naturally take over the Dominion Government note issue, together with the assets held against it; it would act as the agent of the government in its financing; and undoubtedly develop various other functions as need and opportunity arose.

The financing of a Central Bank would not, I think, present any tremendous problem. There would probably be some apparent cost at least at first. I say nothing about these matters, or about the details of organization, since these problems can readily be solved, with the aid of the many models available, if the decision is made to establish the Bank.

(Signed) W.Russell Maxwell,

Dalhousie University,
Halifax, N.S.

SUBMISSION MADE TO THE ROYAL COMMISSION
ON BANKING AND CURRENCY BY G.G.COOTE, M. P.

Nanton, Alberta,
August 31, 1933.

The writer was a member of the Committee which prepared the memorandum submitted to your Commission by the United Farmers of Alberta at Calgary recently. I will therefore not attempt to deal with matters covered in their submission to you.

As thememorandum in question was prepared on short notice and as I was personally unable to be present at Calgary, I am taking the liberty of sending you my own views on certain phases of the financial situation in Canada.

In the concluding paragraph of the memorandum of the U.F.A., above referred to, it is stated that:

> "Until the power of dictatorship over our economic life now possessed by a small group of privately owned financial institutions has been ended, the development of a planned economy based upon the realities of an age of abundance must prove impossible."

I wish first of all to offer evidence as to the extent to which this power is possessed by a small number of privately owned financial institutions and how this power is becoming more and more centered in a few hands.

In the year 1900 Canada had 36 banks. Previous to that time there was no provision in the Bank Act for the purchase of the assets of one bank by any other bank.

In that year the Canadian Bankers' Association

was incorporated by Act of Parliament.

In the Bank Act of 1900 new sections were added providing that the Canadian Bankers' Association should appoint a curator for any bank that suspended payment in specie of any of its liabilities. It gave the Association power to make by-laws, rules and regulations respecting all matters relating to the curator and making of bank notes.

There immediately followed provisions for the purchase of assets of one bank by another bank, subject to the approval of the Governor in Council through the recommendation of the Minister of Finance.

Here was a fine machine for concentrating control in a few hands. Bank mergers began that year. I am not able to give you a list of bank mergers since that time. I would suggest that you ask the Department of Finance at Ottawa to prepare such a statement and also showing the paid-up capital of each bank that was merged and the capital of the continuing bank. It will show in almost every case a diminution of the total capital.

It will suffice for our purpose now to say that:

In 1900 Canada had 36 banks
1910 Canada had 28 banks
1923 Canada had 17 banks
1933 Canada had 10 banks.

During this time the Royal has absorbed eight other banks, the Bank of Montreal six, and the Bank of Commerce eight.

As a result of mergers -- one bank controls 28 per cent of the banking business of Canada, and three banks control 70 per cent of the banking business. Not only do they control the banking business of the country, the directors of those three banks control Trust Companies,

Mortgage and Loan Companies, Bond and Investment Houses, Insurance Companies, railways, public utilities, flour mills, bakeries, packing plants, steel mills, textile plants, tobacco factories, agricultural implement factories, pulp and paper plants, etc., in fact everything that is worth controlling.

Attached hereto is a statement marked Exhibit "A" showing some of the corporations controlled by directors of these three banks and the great number of directorships held by individual directors. This list is necessarily incomplete. It is not easy to secure the complete information. The list has been taken mainly from the Canadian Annual Financial Review and many corporations are not shown there. A few were added from Who's Who. A few years ago, an article in a Canadian magazine "The Country Guide," credited one of our bank presidents with having directorships in 145 companies.

Through interlocking directorates these men control the bulk of industry — through industry they largely control advertising -- through advertising they can control most of the press.

Credit is necessary in every business to-day. Bankers can put any company or organization out of business by refusing credit at a critical time. They may [illegible] credit to competitors of a company in which they are personally interested and force competitors out of business. Giving or withholding credit largely governs the volume of business which is being done.

Through their control of finance and industry -- the group of men already referred to exercise more power over the economic life of the people than any government.

They have power without responsibility which is generally attended with unfortunate results for somebody. Pages could be written showing the unsatisfactory features of this centralization of control in private hands. The [illegible] is not easy. I suggest two measures for your consideration:

<u>First</u> - That the Governor in Council appoint one-half of the directors of the chartered banks -- these men to be representative of our various economic interests.

In passing may I point out that although agriculture is Canada's major industry there is not so far as I am aware an agriculturist on any of our bank directorates.

The <u>second</u> suggestion is that no bank director should be a director of any other corporation.

Regardless of whether either of these suggestions is acted upon the fact that so much power now rests in the hands of a few banks is a very good reason for the [illegible] of a National Bank such as is urged in the submission of the U.F.A.

FARMERS' INDEBEDNESS

One of the greatest barriers to economic recovery is the terrific burden of debt carried by our farmers. Forty-five per cent of our people are on farms; until their purchasing power is restored economic conditions in Canada will not be good. In July, 1932, compared with 1926 price levels, wheat had fallen 63 per cent, farm products generally 5[illegible] per cent, while retail prices had fallen only 19 per cent. Interest rates, taxes, insurance premiums remained fixed. This ruined the purchasing

power of the farmer -- it also ruined his paying power. The result is, in many cases, three years unpaid interest has been added to the principal of his mortgage or other debt. But in September, 1932, when wheat was selling at 32 to 34 cents per bushel to the farmer in Canadian funds [illegible] Australian farmer was receiving 54 to 60 cents per bushel in Australian currency. These prices are at country shipping points in both cases. In both countries the price of wheat was on an export basis. The pound sterling was at a premium of 25 per cent in Australia while it was at a discount of approximately 25 per cent in Canada. Expressed in terms of dollars it was worth $6 in Australian currency and less than $4 in Canadian currency.

The [illegible] was that the debt paying power of a bushel of wheat [illegible] Australia was 75 per cent greater than a bushel of wheat in Canada -- while in March, 1932, the purchasing power of farm products in Australia was 40 per cent greater than in Canada. (Commons Hansard, November 24, 1932, page 1577, Revised).

There was no inflation in Australia but there was an arresting of the policy of deflation -- while deflation continued in Canada.* In Australia the wholesale commodity price index remained fairly steady around 80 during 1931-1932, while in Canada it dropped from 80 to 63.

In Australia in 1931 interest rates on mortgages were reduced by 22½ per cent of existing rates. This meant that a rate of 8 per cent was reduced to 6.20 per cent. In Can[illegible] there was no reduction. The result, at a time when 1,[illegible]00 bushels of wheat would pay the

interest on a $1,000 mortgage drawn at 8 per cent in Australia, it took 2,200 bushels to pay the interest on a similar mortgage in Canada.

Many millions have been added to the farmers' debts because of the financial deflation as evidenced by the low value of the pound sterling for the eighteen months following September, 1931.

Had our currency been at par with the pound sterling last year, it would have added $40,000,000 to the value of our wheat crop alone. Had it been at par with Australia, it would have added eighty million to the amount received by our farmers for their wheat.

The official reason always given for keeping the exchange value of our currency at such a high level compared with sterling was that on account of the great volume of debt owed by various governments and corporations which was issued with the option of payment in New York funds, we must keep our currency as near par as possible with the United States dollar.

In other words, it was in the national interest to keep the dollar high compared to gold. Surely this furnishes sufficient reason for national action to reduce the rate of interest on existing obligations as well as for setting up tribunals to consider reduction in the principal of some debts.

<u>Meeting our Foreign Obligation</u>

In my opinion, foreign obligations are paid with exports. These exports bring us the same amount of foreign exchange whether our dollar is worth 100 cents or 50 cents in New York. We can meet foreign obligations

just as well whether our currency is at par or not. We cannot continue to meet foreign obligations if we bankrupt our producers through low domestic price levels.

Stability of the internal price level at a proper point is ten times more important than exchange rate stability and I hope the Commission will make a pronouncement on this point.

<u>Just a Final Word re Farmers' Debts</u>

I notice by a press despatch regarding the hearing before your Commission at Winnipeg that a representative of the banks stated "that the banks had suffered very large losses in western Canada."

The same statement was made before the Banking Committee at Ottawa in 1923. At that time I asked that the banks should furnish the committee with a statement showing just what these losses amounted to, in other words, produce the evidence. This was refused. If the banks are to continue to make this assertion, they should be required to produce the figures before your Commission. They should also be asked to explain how these losses occurred. They did, of course, suffer some losses, but they have also suffered losses in other parts of Canada as well. These losses as a rule have been due to inefficient management.

Banks are bound to have some losses in times of financial deflation such as we have experienced for the past three years. Their deflationary policy often destroys the value of the securities which they hold as collateral or of the assets on which the credit was based.

In times of stable business conditions there is no

excuse for many bad loans and the banks should be just as interested as producers in maintaining stable price levels. It would add greatly to the safety of their loans.

CREDIT FOR AGRICULTURE

Your Commission might very well consider the setting up of a National Land Mortgage Corporation which would have power to make advances against existing mortgages, such advance to be limited to 50 per cent of the value of the land provided that the holder of the mortgage would reduce the rate of interest to 4 or 5 per cent or whatever rate might be decided by the directors of such corporation.

Consideration might also be given to the establishment of a new system to furnish intermediate and short credit for farmers. In my opinion all farm credit could best be handled through one institution. This should be more satisfactory to both borrower and lender, but the lending body should be subject to national control.

If the Commission do not see fit to recommend some new system they might at least suggest that the whole matter of credit for agriculture be referred to a Commission on which agriculture and some of the provincial governments should have direct representation.

FINANCING OF INDUSTRY

Our system of financing industry should be radically changed.

The investing public have been swindled out of hundreds of millions through the sale of bonds of little or no value. In the formation of many companies, two classes of common stock, preferred stock and perhaps two

classes of bonds have been issued. The bonds and preferred stock being sold to the public to finance the whole enterprise. Very often the control of the company was vested in one class of common stock which was held by a few promoters and which cost them nothing.

In my opinion the time has come when there should be set up a public corporation for the financing of industry, a sort of national investment corporation.

That the issuing of fixed income bearing securities such as bonds and preferred stocks be prohibited and that industry should be financed from the sale of one class of security, namely, shares of the capital stock, of one class only. Then every investor would have a voice in selecting the managing board of the company and the same return on his investment.

The Investment Corporation thus set up should be given power to control the capitalization of companies in order to prevent the creation of fictitious capital and to see that all the money subscribed was really used in the industry itself and not handed over to promoters.

Such a body would prevent the over-capitalization of industries such as has taken place so often in the last decade.

Perhaps the pulp and paper industry best illustrates the process which has been going on.

A few months ago, the Premier of the Province of Quebec was reported to have made the statement that the power, paper and pulp companies of eastern Canada with an original capital of $30,000,000 had within a few years enlarged and financed themselves into a capital of

$714,000,000. The Premier is reported to have added that in his judgment the value of that $714,000,000 was to-day not more than $25,000,000. And not only the private investor has been swindled through the purchase of these securities. The report of the superintendent of insurance for Canada, for the year 1929, shows that six life insurance companies held various stocks and bonds of th[illegible] [illegible]anies concerned to the nominal value of $14,000,000, and [illegible] insurance company alone held almost $10,000,000 of these securities. Some control is badly needed to see that the savings of the people (their [illegible] earned insurance premiums) are not dissipated in [illegible] [illegible]anner.

A recommendation from your Commission, as to the desirability of proper control to deal adequately with this problem would be highly appreciated by thousands of Canadians.

MUNICIPAL AND PROVINCIAL DEBTS

The problem created by both municipal and provincial government debts has undoubtedly been placed before you [illegible] many occasions.

I simply want to suggest that in the case of municipalities at any rate and I see no reason why the same rule should not apply to provinces, any bonds issued should be on the amortization plan, that is t[illegible] [illegible]rincipal and interest should both be retired by [illegible] [illegible]nual payments provided for during the life of the bon[illegible].

Hundreds of millions have been added to the debts of provinces and municipalities to pay for unemployment

relief. This is absolutely unfair to those bodies. They are not responsible for unemployment.

Under the constitution the Dominion Government has control of currency and coinage, banking and issuing of money, interest, tariffs, transportation, immigration, etc., in fact all the vital economic forces which determine the amount of employment for the people.

The Domibion should finance all unemployment relief.

AMENDMENTS TO BANK ACT

Supervision of Large Loans

It is generally admitted that bank failures have been caused by large loans. Some supervision should be exercised over the banks in connection with large loans of say more than $200,000. They should be required to have them approved by the central bank or Treasury Board or reinsured with central bank or other banks.

The central bank power to fix from time to time the cash reserves to be held by commercial banks.

Booms on the stock market are financed mainly on bank loans on stocks and bonds. To prevent these booms, banks should be prohibited from creating credit against collateral of stocks and bonds except within certain limits.

Section 138 should be struck out.

Municipalities should have the right to issue scrip up to a percentage of their tax levy. This section in my opinion prevents that being done.

Bank Returns to the Government

In addition to the monthly return now made to the government the banks should after their annual meeting make a return to the government showing:

1. Their total gross earnings from interest charges, from exchange and other operations and a detailed statement covering the disposition of such earnings including wages and salaries paid, and the amount written off for bad loans. If the bankers are as efficient as they would lead the public to believe they need have no hesitation to giving this information and their depositors are entitled to it.

2. Amount of deposits and loans by provinces.

3. The distribution of loans for various purposes -- agricultural and other industries -- loans against stocks, bonds, etc. (See page 176, Macmillan Committee Report).

4. Number of branches and where they are located.

5. The names, addresses and occupations of all directors and a list of firms and corporations of which they are partners or directors.

6. A list of all bonds, debentures or other securities held by them such as is now required from insurance companies.

FOREIGN BUSINESS

Our banks might very well be compelled to confine their operations to Canada. The bank statement for May, 1933, shows that one of our banks had 36 per cent of its loans outside of Canada. With a paid-up capital of $35,000,000, it had outside loans of $144,000,000.

From the standpoint of safety of depositors'funds, this is dangerous. A collapse of sugar prices, or a foreign revolution such as recently took place in Cuba might conceivably wreck a bank with foreign loans equal to 3 or 4 times its paid-up capital.

It has also been charged that in times when high interest rates were available outside Canada particularly in New York certain Canadian banks loaned too freely outside Canada and this resulted in drain on our gold reserves which put us off the gold standard in 1929.

Overdrafts

Our banks as a rule refuse to lend on overdraft even for a few days; they insist on having a note with a minimum charge. I think the Commission might consider some recommendation in regard to this practice.

DOMINION NOTES ACT

The Act as it now stands authorizes the issue of 50 million of Dominion notes against a twenty-five per cent gold reserve. An issue of 26 millions against certain railway securities and over that amount notes may be issued without limit against dollar for dollar of gold.

As gold is no longer intended for circulation and as our Dominion notes outstanding have probably not fallen below $150,000,000, in the last twenty years, this simply results in locking up $60,000,000 or more of gold which serves no useful purpose.

We have in Canada an extraordinary situation. Dominion notes can issue under the Dominion Notes Act only against gold but Dominion notes without limit may be

issued under the Finance Act against various classes of securities, yet until recently under the terms of the Dominion Notes Act, notes issued under the Finance Act might be presented for redemption in gold.

I would suggest that the Dominion Notes Act be changed to allow the issue of Dominion notes without gold reserve;

That Dominion notes should not be redeemable in gold (in actual practice no currency is now redeemable in gold coins). Any currency becomes inconvertible whenever the people decide to exercise their right to convert.

Our Dominion notes should be inconvertible -- they [illegible] be legal tender money.

The amount of the notes should be limited only by the needs of commerce and industry, based on a stable commodity price level.

THE FINANCE ACT

This act was passed as a war measure in 1914. Evidently its purpose was to enable the banks to meet any demands that might be made upon them by depositors. It authorized the Government to make advances to the banks in the form of Dominion notes, against a large class of securities. It imposed no limit on such advances.

Handled intelligently it would have been a very useful piece of legislation but it certainly has not been handled intelligently. The Act made possible the great inflation of bank credit during the last years of the war and up to 1920.

It was also the basis of the inflation which we

suffered from during 1928 and 1929.

Had the administration of this Act been in the hands of a national bank which was charged with the responsibility of maintaining stable price levels, they surely would not have been increasing their advances to our banks in 1929 at rates of three and three-quarters to four and a half per cent to enable them to loan large sums at call in both Canada and New York.

On March 30th, 1929, the advances to Canadian banks under the Finance Act amounted to $83,000,000. On the same date call and short loans on stocks, bonds and other securities were shown as $267,000,000, and call loans elsewhere than Canada were $293,000,000.

Surely it would be worth while to establish a national bank to administer the Finance Act intelligently, if for no other reason.

All of which is respectfully submitted.

(Signed) G. G. Coote.

(List referred to filed as Exhibit.)

MEMORANDUM SUBMITTED BY

THE MONTREAL BOARD OF TRADE

Montreal, September 14,1933.

My Lord and Gentlemen:

I have the honour, on behalf of the Montreal Board of [illegible], to submit for your consideration the following [illegible] with regard [illegible] the banking situation in Canada, which [illegible] have been commissioned to investigate.

It is the general feeling among the members of the Montreal Board of Trade that the last four years have [illegible] that our banking institutions are sound, and they view with considerable concern any proposals for radical changes.

As far as currency and note issue are concerned, the requirements of the country seem to have been adequately met. As to control of credit and stabilization of exchange, it does not appear that any control organization in Canada could have achieved more than was possible by the Dominion Government and the banks under the Finance Act. [illegible] does appear that in three respects changes might be made to advantage:

(1) The operations of the banks should be confined strictly to banking and should not extend to such other activities as buying and selling securities.

(2) There seems to be an opinion that some changes might be advisable affecting the relations of the Finance Department and the banks. For example, the functions at present exercised by the Finance Department might be put in charge of a banking

commission which would be independent both of the Government and of the banks.

(3) It is felt by many that interest rates are not flexible enough, but should be more in keeping with the rates prevailing in international centres, having in mind our large export business.

There is one feature of the present banking situation the trend of which the members of the Board view with considerable alarm, that is, the increasing extent to which the assets of the banks are being involved in Government financing. Among the assets of the banks are the following:

Dominion Government and provincial government securities.

Canadian municipal securities and British, foreign and colonial public securities other than Canadian. (The non-governmental items included in this list are not large and can have very little bearing on the rate of increase).

Loans to provincial governments.

Loans to cities, towns, etc., and school districts.

On the 31st December, 1913, the total of these items in the chartered banks of Canada was $67,637,000 or 4.38 per cent of the total assets of all the banks.

On the 31st December, 1931, these items had reached [illegible] of $803,270,000, or 27.30 per cent of the total assets of the banks, and 41.7 per cent of the deposits by the public in Canada.

On the 31st December, 1932, these items had risen to $869,161,000, or 30.93 per cent of the total assets of

all the banks, and 47 per cent of the deposits by the public in Canada.

As at 31st July, 1933, the figures had further increased to $963,000,000, which was equal to 50 per cent of the deposits made by the public in Canada, and was equal to 34 per cent of the total assets of the banks.

Out [illegible] total of $963,000,000, $648,000,000 consists of Dominion government and provincial government securities.

The increase in the total of government securities and loans in the last few years is largely compensated [illegible] a decrease in commercial loans. This means that [illegible] of the depositors is being used to an increasing extent for governmental purposes and that much less for the needs of commerce, until a situation has now been reached where one-half of the deposits made by the public in Canada have been lent to the various governments, or invested in government securities. Under normal circumstances such a change might be considered an improvement in the position of the banks, as government loans and securities rank higher in the category of liquid assets of banks than do commercial loans, but as these government borrowings represent deficits in revenue and expenditure on non-productive assets, the time is not far off when such a position will be not without danger.

The Chairman of the Board's special committee, [illegible] has for some time been giving consideration to the matters covered by the reference to the Commission, will be glad, if requested, to attend at Ottawa to answer any questions explaining or elaborating the opinions expressed

in the foregoing.

I have the honour to be,

My Lord and Gentlemen,

Yours obediently,

(Signed) J. Stanley Cook

Secretary.

Parliament Buildings
Ottawa, Ontario,
September 15, 1933.

Special Session
on
Exchange and Statistics

- - -

THE COMMISSION met at 2.30 p.m.

- - -

THE CHAIRMAN: Mr. Knight, we want to complete our description of the existing banking organization in Canada by some account of the exchange department, of the method in which Canadian banks operate exchange, and we accordingly ask you to be good enough to give us a short descriptive account of that department of the bank's work. We have not taken this evidence in public, not because there is anything in it that we regard as especially confidential, but we closed our public hearings this morning, and in any event the topic is so technical as not to be of interest to the public. Will you first tell us what office you hold in the Bank of Montreal?

MR. R. E. KNIGHT (Bank of Montreal): I am Manager of the Foreign Exchange Department of the Bank of Montreal. It embraces all the foreign exchange operations of the bank in Canada and Newfoundland and certain operations in London and New York.

THE CHAIRMAN: I suppose the work of your department in the Bank of Montreal may be taken as typical of the working of similar departments in other banks in Canada. Have the other banks as extensive a foreign exchange department as you have?

MR. KNIGHT: At least four of the larger banks would have.

THE CHAIRMAN: Then we may take it that what you are going to tell us in regard to exchange is typical of Canadian banking methods?

MR. KNIGHT: I think so.

THE CHAIRMAN: I think Sir Charles Addis will be kind enough to ask a number of questions on which we should like your views.

SIR CHARLES ADDIS: I should like to take as our starting off point, Mr. Knight, the distinction between what you will agree is the present abnormal position and the normal position which in some form or another we hope may shortly be restored, and I would ask you to consider any questions that I may put to you from those two angles, first as regards what I may call the emergency or transition period, and secondly as regards the long period, with which of course you understand this Commission is mainly concerned.

MR. KNIGHT: Yes. Of course, the long period [illegible] would be based on a gold standard, or something similar, which will have a bearing on what I might say.

SIR CHARLES ADDIS: I agree. You are aware that there has been an indication of the general policy of your government in favour of the stabilization of prices in some form or another, which we may take to involve some form of metallic basis for the currency, and therefore not to tie down the form too tight, it would be some form of the gold standard or gold basis, and your answers would be based on that hypothesis. You agree with that?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: The first question I want to ask you is who are the dealers in exchange in Montreal and Toronto; that is, people who buy and sell exchange for their own account and carry a position in exchange?

MR. KNIGHT: Operations in this category are practically confined to the banks with possibly the addition of large corporations like the milling companies, which may take a position in exchange, but speaking generally, they are confined to the banks.

SIR CHARLES ADDIS: Are there any brokers?

MR. KNIGHT: Yes, there are six in Montreal and two in Toronto.

SIR CHARLES ADDIS: Are transactions executed through the brokers or directly through the dealers?

MR. KNIGHT: Brokers are employed for all operations between banks. These brokers do not operate for their own accounts but merely act as intermediaries.

SIR CHARLES ADDIS: And other transactions?

MR. KNIGHT: Any transaction the bank has with an individual or corporation is usually a private matter between bank and client. It is not a market transaction unless the bank is given by the client a firm market order.

SIR CHARLES ADDIS: Market transactions are carried on by means of brokers, and transactions between the banks and their clients are carried on direct?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: But not through the brokers?

MR. KNIGHT: Not unless a firm market order is given as clients usually require firm bids or offers from the banks.

SIR CHARLES ADDIS: In the purchase of sterling, for example, what does the bank do? If sterling cannot be acquired in the Montreal market, for instance, does he turn his attention to New York? What is the procedure?

MR. KNIGHT: First, the basis of the local rate is established by taking the latest New York rate for sterling and adding thereto or deducting therefrom the premium or discount on United States dollars in Canada, as the case may be. Bids may be made on this basis in the local market and if no sterling is forthcoming, it will be acquired in the New York market or United States dollars sold in London. This, in turn, involves the purchase of United States dollars in Canada or the sale of Canadian dollars in New York if the banker has not the United States dollars already on hand. Obviously, purchases and sales would not be made in the local market unless the rates obtainable are as advantageous as those procurable by arbitraging with United States dollars.Generally, we have a continuous flow of sterling q uotations from New York.

SIR CHARLES ADDIS: From your own branch there?

MR. KNIGHT: Yes, according to the state of the market there may be hundreds of wires a day or just a few. For United States dollars in Canada there is a fairly active market and rates are usually available from bids and offers in the market through the brokers.

SIR CHARLES ADDIS: Then with regard to London?

MR. KNIGHT: The closing of our market for United States dollars is cabled to London from which they build up their opening Canadian dollar quotation. Often firm overnight bids and offers for United States dollars are given which puts London in a better position to trade. All

important changes in the United States dollar rate in Canada are cabled as long as the two markets are operating. According to my experience, London prefers bids and offers for United States dollars rather than for sterling on a Canadian basis.

SIR CHARLES ADDIS: Why?

MR. KNIGHT: It is easier for them. In London themarket for Canadian dollars is limited and if the United States dollar rate is erratic, London has difficulty in establishing a trading rate for Canadian dollars unless they have some indication of Canada 's idea of the value of United States dollars.

SIR CHARLES ADDIS: Would you describe that as being an abnormal position? How does that correspond with what you might call the normal condition?

MR. KNIGHT: I would say it applies to both, because a fluctuation of one-quarter or one-half a cent in normal times is just as wide as say three or four cents in these times.

SIR CHARLES ADDIS: In normal times you get a much closer market in New York?

MR. KNIGHT: Yes, and our United States dollar rate to London would be very much closer than in abnormal times.

SIR CHARLES ADDIS: Does that amount to a triangular arbitrage? Is the process this? You have a surplus of sterling bills and with the proceeds of these bills you proceed to purchase dollars in New York and then finally with those dollars complete the triangle?

MR. KNIGHT: That is true to a certain extent, but it often happens that we are sellers of sterling and buyers of United States dollars at the same time, so that the

United States dollars are already on hand.

SIR CHARLES ADDIS: That is to say, there are occasions when although the demand for sterling is less than the demand for dollars in the aggregate, there are occasions when the demand for American dollars is less than you need to sell sterling, so that the final result is a greater demand for Canadian dollars. Is that the sort of circle it produces?

MR. KNIGHT: At certain times of the year, yes.

SIR CHARLES ADDIS: Would you then bring that demand on through New York?

MR. KNIGHT: I think we would. Of course a lot of our transactions offset other transactions.

SIR CHARLES ADDIS: You are able to marry a number of transactions?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: So it is only the residue you have to deal with?

MR. KNIGHT: Yes. In respect to the marrying of transactions and the disposal of the residue, the influence of forward operations must be taken into consideration. At times these operations may constitute perhaps half of the day's business. The banks encourage their clients to avoid exchange risks on future commitments abroad by forward exchange operations as far as is practicable and at times furnish cover further forward than market permits. It is therefore necessary at times for banks to create spot balances in either London or New York against future sales, and vice-versa.

SIR CHARLES ADDIS: The residue is all-important. How do you deal with that residue? That is what I want to

know.

MR. KNIGHT: If we have sterling on hand and there were no markets for it in Canada, we would immediately sell it in New York. We would not hold it. We would carry the transaction half way immediately, having possibly some idea of the trend in the United States dollar while we may have no knowledge of what the future movement in sterling may be.

SIR CHARLES ADDIS: In other words, you have to take up to some extent at least a position in exchange;

MR. KNIGHT: Yes, but not an extended position.

SIR CHARLES ADDIS: There are balances left over?

MR. KNIGHT: Yes. It may happen that we have sterling on hand which we can usually sell in New York without difficulty, but we may not be able to bring the dollars to Montreal. We may be forced to leave them in New York for a time.

SIR CHARLES ADDIS: Having no demand in Montreal?

MR. KNIGHT: Yes, but that is not usual. It would be unwise to force United States dollars on the market when such course would have the effect of considerably dropping the rate.

SIR CHARLES ADDIS: So you would then hold it off?

MR. KNIGHT: Yes. We might sell say fifty thousand pounds bringing two hundred thousand dollars to New York. If we threw that $200,000 on the market we might depress the rate more than was warranted by conditions, whereas if we held it over until the next day or few days, we might be able to work it out even in our own internal operations without affecting the market.

SIR CHARLES ADDIS: But so far as the residue is concerned, you may have to take up a position from day to day on account of your natural desire not to throw the exchange into dislocation?

MR. KNIGHT: Yes.

MR. TOWERS: In practice the position one is forced to take is never very large.

SIR CHARLES ADDIS: We are dealing not so much with matters of amount as with a question of degree and as to how far these operations go, how far the bank operations in exchange affect the Canadian position. You are aware, of course, that it has been strongly contended that this has no effect at all. I do not wish to exaggerate or to press you unduly, but merely to discover if I can with your assistance how far the influence of the banks is, in point of fact, exercised consciously or unconsciously upon the stability or instability of the foreign exchange, and I think your answer is quite clear on that point. Take another case. Is it a possible arbitrage transaction to sell sterling for American dollars, to swap them into American dollars - you know what "swap" means - and then make a direct swap back to sterling without going back to New York?

MR. KNIGHT: Not quickly enough to make a profit, because the direct rate is already based upon the other two sides of the triangle.

SIR CHARLES ADDIS: It is not a possible arbitrage transaction?

MR. KNIGHT: In general practice it is not, because most of the banks have their direct wires to New York

buy them in say one of the Scandinavian countries if I had a balance there and wanted to use it rather than sell in the one case and buy in the other.

SIR CHARLES ADDIS: That would hold relatively true of otherEuropean countries, of francs for instance?

MR. KNIGHT: Yes, francs and continentals generally, as they are usually bought by us in London. We formerly bought them in New York but have been buying them in London for some time.

SIR CHARLES ADDIS: But with regard to sterling your practice with few exceptions is to convert them into American dollars?

MR. KNIGHT: Yes, it is a practice that is forced upon us. It is not a voluntary practice.

SIR CHARLES ADDIS: Forced upon you by abnormal conditions?

MR. KNIGHT: To a certain extent, but more because of the large volume of exchange between Montreal and New York and between New York and London, on the one hand, and the rather restricted volume between London and Montreal [illegible] other.

SIR CHARLES ADDIS: It is an angle of the triangle?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: It does not respond equally on each side?

MR. KNIGHT: At certain times of the year here the supply of sterling is in excess of the demand. In normal times we might provided other conditions were satisfactory, allow our sterling balances to accumulate in London.

SIR CHARLES ADDIS: In any case where the de[illegible]

conversion involves the conversion of sterling into United States dollars you have eventually to bring them back over the New York-Montreal exchange?

MR. KNIGHT: Not as a market transaction but the [illegible] is there.

SIR CHARLES ADDIS: It would be brought back over the Montreal-New York exchange?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: Restricted though it is and difficult though it is, you can carry out that particular transaction?

MR. KNIGHT: Yes. In fact, it is very much easier as a rule to sell sterling in New York for United States funds than to sell sterling direct.

SIR CHARLES ADDIS: Can you give us an idea of the extent to which direct sterling Canadian operations are carried on? Is it possible to form some idea of the direct [illegible] as apart from the triangular operations? What [illegible] do they form of your total transactions?

MR. KNIGHT: I would say that we are able to marry and cover in the local market possibly 25 per cent, but [illegible] just a guess.

SIR CHARLES ADDIS: That is the amount you marry?

MR. KNIGHT: Marry or cover in the local market through another banker.

SIR CHARLES ADDIS: It would be about one-quarter?

MR. KNIGHT: I could not say definitely. Perhaps Mr. Towers could answer that question.

MR. TOWERS: I have no idea.

MR. KNIGHT: It depends largely on the state of the market. In normal times I would say that it would be much higher, possibly a half but subject to wide daily variation. In abnormal times, when we have a demand for say twenty-five thousand pounds, we rush to cover, [illegible] cover in the quickest way available.

SIR CHARLES ADDIS: Your estimate of a half is very interesting in its relation to the trade between New York and Canada and between Canada and London, and that struck me at once when you mentioned that figure.

MR. KNIGHT: It was purely a guess. I know that in normal times a week may sometimes elapse without our having recourse to the New York market for sterling. That is why I estimate it must be at least that. In referring to trade between Canada and London you are doubtless aware [illegible] a considerable portion of the export of grain is financed either in London or New York. Therefore in such case the sterling which may be involved does not come into the hands of the Canadian banks.

SIR CHARLES ADDIS: Fifty per cent; that is

interesting. How wide is your exchange market? What is the extent of the average day's transactions? What t run into in point of figures roughly?

R. KNIGHT: Without having any figures before me a rough guess would be that the average daily turnover of the banks as a whole is in the neighbourhood of four hundred thousand pounds, but the actual daily amount is subject to wide variation. The daily market turnover in Toronto and Montreal for sterling varies all the way from nothing to two hundred thousand pounds.

SIR CHARLES ADDIS: That would be a large amount in one day?

MR. KNIGHT: Quite large.

SIR CHARLES ADDIS: Even in the season?

MR. KNIGHT: Even in the season because at times we are all on the same side.

SIR CHARLES ADDIS: Repeat that, please.

R. KNIGHT: We are all on the same side at the same time.

SIR CHARLES ADDIS: Who are "we"?

MR. KNIGHT: The banks -- we may all be sellers or all buyers. In the autumn our exporting clients are sellers when there is little local demand, but in June and December interest requirements reverse the trend.

SIR CHARLES ADDIS: I understand that. There is no marrying there. It is the aggregate amount then?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: And it may reach two hundred thousand pounds in a day?

MR. KNIGHT: I do not remember a day when there

has been more than two hundred thousand pounds done in the Canadian market without the intervention of New York.

SIR CHARLES ADDIS: You are speaking of the market as a whole?

MR. KNIGHT: I am speaking of Toronto and Montreal.

MR. TOWERS: That would not include sterling which might be sold in New York.

MR. KNIGHT: No.

COMMISSIONER LEMAN: That would be for trade requirements?

MR. KNIGHT: For the requirements of our clients.

COMMISSIONER LEMAN: Would there be large amounts involved in capital movements?

MR. KNIGHT: No, not in the local market. A part could be done here but the bulk would of necessity go through New York.

COMMISSIONER LEMAN: I wanted to bring out this point. In the case of an issue made in London the proceeds of which would be brought back to Canada; would they come through New York or come direct to this country?

MR. KNIGHT: It would depend on the position of whoever had the transferring of funds. A large part would be brought back through New York, but a portion would come direct in the marrying of these transactions with other clients' requirements.

SIR CHARLES ADDIS: Did I follow you correctly? In the case of an issue of a loan your premise was that the proceeds were left for the bank to arrange?

MR. KNIGHT: No. What I meant to convey was

that it would depend on the position of whoever was responsible for bringing back the money, and if their requirements were such that they needed money in New York th[illegible] bring a considerable portion of the Sterling [illegible] in any case, but if they required to bring the whole amount to Canada, a large proportion would come through New York and a small proportion would come here direct.

COMMISSIONER LEMAN: The two hundred thousand that you mentioned as being the transactions for [illegible] would cover both capital movements and trade movements?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: Would you qualify your answer by saying, apart from exceptional transactions?

MR. KNIGHT: There is always the exception. It might be possible to marry a transaction of a million pounds, but that is not a market transaction. When I quoted two hundred thousand pounds as the limit of the market I mean the market. I do not mean transactions where one of our clients is a buyer and another a seller and we marry the two transactions. We might possibly have a turnover of a million pounds but at the outside [illegible] would not be more than two hundred thousand pounds [illegible] market.

SIR CHARLES ADDIS: From that point of view the market might be described as fairly active?

MR. KNIGHT: No, because any time that we have a two hundred thousand day it usually means that there is one large buyer and one large seller, and the transaction

are going through in say ten or twenty-five thousand pound lots.

SIR CHARLES ADDIS: Smaller amounts have been concentrated in the banks previously. There is no general demand from day to day?

MR. KNIGHT: There is always some demand from day to day, but it is largely taken up inside the banks. Take, for instance, small transactions throughout the branches as a whole that are closed on what we call our daily mail bulletin which we send out to our branches. When we strike a balance there are possibly not more than four or five thousand pounds on one side or the other.

SIR CHARLES ADDIS: From what you have told us it cannot be said that the market is in such direct touch with the London market, or at least not in the same way as the New York dealer is in touch with London?

MR. KNIGHT: By no means.

SIR CHARLES ADDIS: With regard to your branches, what instructions do you give to them regarding exchange dealing?

MR. KNIGHT: The smaller branches receive a daily bulletin which is mailed from the central distributing offices. It is first wired from the head office exchange department to these distributing centres, which are so placed that wherever possible the rates are in the hands of these smaller branches the day after they are made. The limits within which such rates may be used are quite restricted, say, a hundred and fifty pounds in keeping with the requirements of the community served. As to the larger branches, we have a system of distributing

rates as the market changes and according to local conditions. We may send only one daily wire to a certain [illegible], and we may send ten or even more to another [illegible]. We have fast wires with Vancouver and Winnipeg and these branches get all market changes of consequence. The larger branches are allowed to buy or sell at the latest rates received immediately without reference to head office up to limits which we consider large enough for their requirements. If branches have any transactions in excess they wire us for firm quotations. We have very few market orders from our clients and a considerable portion of the business is competitive.

SIR CHARLES ADDIS: You wire the rates to the branches. Do you give your branch manager your Toronto or Montreal rate, and leave him to adjust it?

MR. KNIGHT: We leave him to adjust the rate to the client. We wire sterling and United States dollar rates at which the Department will cover him.

SIR CHARLES ADDIS: Only these two?

MR. KNIGHT: Always these two and others if necessary. In mining districts, for instance, we also wire the lira rate for emigrant remittances.

SIR CHARLES ADDIS: And given those rates is the branch manager in a position to work out some sort of a rate on foreign currency or would he be given them separately?

MR. KNIGHT: In the mail bulletin he gets the Canadian rates on all the continentals.

SIR CHARLES ADDIS: And he can work out the necessary arbitrage?

MR. KNIGHT: He does not require to do so because he has the actual Canadian rate before him, and his clients require the Canadian rate not the United States dollar rate.

SIR CHARLES ADDIS: In practice he does not do that?

MR. KNIGHT: No, in practice he takes the actual rate he has from his foreign exchange department which, in the ordinary course, is a service department operating without any thought of profit but just as a service to the branch, and the branch manager adds his margin of profit.

SIR CHARLES ADDIS: You give them both buying and selling rates?

MR. KNIGHT: Yes, there will be a spread between [illegible] depending on the condition of the market.

SIR CHARLES ADDIS: The market on which the exchange is drawn?

MR. KNIGHT: The condition of the market for that exchange as we see it. We have a bid and offer for sterling in New York, and we may have a bid and offer on United States dollars. By putting the two together we can arrive at rates with a fair spread.

SIR CHARLES ADDIS: In other words you take the general condit[illegible] make up your [illegible] as to what is the proper rate to secure your profit?

MR. KNIGHT: Not our profit. I would rather say the margin of safety.

SIR CHARLES ADDIS: Does that apply to all the banks? Does each bank take its own view of the spread?

MR. KNIGHT: Yes, but I may say that a committee

was recently appointed by the Canadian Bankers' Association to bring about more uniformity in the spreads. In view of the present erratic conditions it is difficult to accomplish this because it would mean that we would all have to send our rates out simultaneously, which is rather difficult to arrange.

SIR CHARLES ADDIS: There is no agreement between the banks as to the spread between buying and selling. That is arrived at according to the individual opinions formed by the different banks?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: There is no agreement between the banks?

MR. KNIGHT: An agreement at the present time would be rather difficult to bring about owing to the changing conditions.

SIR CHARLES ADDIS: Does it work out fairly uniformly or are there wide differences in the spread?

MR. KNIGHT: There are differences occasionally but generally the spreads are fairly uniform. They vary, of course, with the time the rate is outstanding before it is in use at the branch. Under conditions similar to the present I would say that the spread in the mailed bulletin in United States dollars would be one-half per cent. This is a margin of safety, not necessarily a source of profit. In fact, owing to the time in transit the net result is often a loss when the advices arrive at the head office. Moreover in the small transactions in United States dollars there is usually an excess of purchases over sales and owing to the time

occupied in the transit the "float" has to be estimated and allowed for in our daily position.

SIR CHARLES ADDIS: In the result it always works against you?

MR. KNIGHT: Not always.

SIR CHARLES ADDIS: But the spread you start with [illegible]-half of one per cent and you often finish up with [illegible]

MR. KNIGHT: We never realize the spread that we set in our bulletin. Of course, if there is a steady market and we have one-eighth of one per cent spread we will run pretty close to that one-eighth.

SIR CHARLES ADDIS: I understand. It always runs down but never up?

MR. KNIGHT: I think that is the general experience of all.

SIR CHARLES ADDIS: Possibly [illegible] to the keenness of the local managers.

MR. KNIGHT: That may have something to do with it.

SIR CHARLES ADDIS: And with regard to the important branches the rate varies not only from day to day [illegible] several times a day?

MR. KNIGHT: Yes. We have instantaneous communication with Vancouver and Winnipeg, which get the changes in the market within a few minutes of our getting them.

COMMISSIONER LEMAN: There is as a matter of fact fairly keen competition between the banks on foreign exchange?

MR. KNIGHT: I think there is more competition here than anywhere else outside London.

COMMISSIONER LEMAN: Do you know of any country where the spread on foreign exchange transactions is smaller than in Canada?

MR. [illegible]: That is rather a difficult question to answer.

COMMISSIONER LEMAN: [illegible] you think that the Canadian customer benefits through the fact that you are in the position to, and do actually put through many of your [illegible] transactions in the larger markets of New York [illegible]

MR. KNIGHT: Undoubtedly.

COMMISSIONER LEMAN: You are aware no doubt of the question which has arisen in the public mind as to the advantage of dealing directly in Sterling, for instance, as between London and Montreal. Do you think that the Canadian customers would benefit from such transactions?

MR. KNIGHT: Under present conditions I can perhaps best answer that question by given an illustration. If, for example, a man has twenty-five thousand pounds to sell, and we are restricted to the direct market, there would under present conditions be many occasions [illegible] transaction could not be completed even on the [illegible]

COMMISSIONER LEMAN: Do I understand your answer to be that the Canadian customer benefits from these deals?

MR. KNIGHT: Undoubtedly. It is in his best interest.

COMMISSIONER LEMAN: Then there are a variety of

exchange transactions; there are those which cover cable transfers, cheques, and also term bills: Does the rate of interest available in one centre as against another centre constitute a material factor in the exchange rate which can be obtained in one market in comparison with another market?

MR. KNIGHT: In other words, do we apply the London discount rate to our bills? Is that it?

COMMISSIONER LEMAN: Or even the New York rate?

MR. KNIGHT: Do we apply the New York discount rates to our New York bills, and the London discount to our London bills? The answer is "Yes".

COMMISSIONER LEMAN: I did not want to put a leading question --

MR. KNIGHT: The answer is "Yes".

COMMISSIONER LEMAN: Therefore the Canadian customer is enabled to get the benefit of the London discount rate or the New York discount rate?

MR. KNIGHT: The Canadian customer in several instances is getting an advantage to-day to which he is really not entitled.

COMMISSIONER LEMAN: Is he not entitled to the very best which can be secured?

MR. KNIGHT: If he has a produce bill drawn in London, he is entitled to the rate that the two names on the bill would secure in the London market without a bank endorsement. At the present time he is able to dispose of those bills at something better than the London discount rate because of the anticipation of the bills being paid on rebate. Competition brought that about.

COMMISSIONER LEMAN: Do you find that when term bills, discounted in Canada on the basis of Canadian conditionsare taken up in London under discount it gives an occasional advantage to Canadian customers?

MR. KNIGHT: If the bill is taken up under discount the advantage is to the bank, is it not?

COMMISSIONER LEMAN: It may be or it may not be; it would depend on the arrangements, would it not? Or let me put it another way; in quoting your rate, would you take into account the fact that the bill will be taken up under rebate?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: Therefore, there is an advantage?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: Just one more question. During how many hours, on account of the difference of time between London and Montreal, are you in a position to deal in exchange with London, in comparison with New York?

MR. KNIGHT: Generally speaking, taking the London closing as five o'clock, we have two hours, but we receive London's noon market at 7 a.m. our time, and if we have overnight positions or overnight orders we are able perhaps to fill them before the opening of either New York or Montreal.

COMMISSIONER LEMAN: Do you think that has an influence on the volume of transactions which go through the New York market?

MR. KNIGHT: Recently, yes.

COMMISSIONER LEMAN: How about the past?

MR. KNIGHT: Well, there is more interest in London in the direct Canadian market now than there was, say, four or five years ago, and there is more direct dealing. London will come to us by cable more frequently than formerly.

COMMISSIONER LEMAN: Now you have referred to the preference of London to convert its foreign holdings in America - or in Canada - in United States dollars. Have you found the same condition obtaining as regards the franc, or the French banks?

MR. KNIGHT: The course of exchange between London and France or between France and New York?

COMMISSIONER LEMAN: I am talking of French holdings of Canadian exchange: would they prefer holding the Canadian exchange, or securing American dollars?

MR. KNIGHT: I am afraid I cannot answer that question on authority, but my supposition would be that an operation in Canadian exchange by a French citizen or bank would often involve a threefold arbitrage, from France to London, London to New York, and New York to Canada.

COMMISSIONER LEMAN: Would that also be your impression, Mr. Towers?

MR. G. F. TOWERS: Yes, Mr. Leman.

COMMISSIONER LEMAN: That the ultimate monetary unit in which they want to have their holdings is in American fur

MR. KNIGHT: Oh, no; I misunderstood your question.

COMMISSIONER LEMAN: You take a French bank forwarding for collection a Canadian bill of exchange; will it want to hold the Canadian funds, or have them remitted to New York, - is that plain?

MR. KNIGHT: Yes. The collections coming from France are infrequent. I would say that a majority of them are remitted for in francs. If the draft is drawn in francs, the remittance is usually made in francs.

COMMISSIONER LEMAN: And if it is drawn in Canadian dollars?

MR. KNIGHT: That is a question I cannot answer.

THE CHAIRMAN: Sir Thomas White, are you desirous of entering into this discussion?

SIR THOMAS WHITE: No, Lord Macmillan; it is rather deep water for me, but I have followed it with very much interest, and I think all the questions have been asked which I had in mind, and more.

SIR CHARLES ADDIS: Do the banks themselves engage in arbitrage operations?

MR. KNIGHT: Not purely with the object of securing profit -- at least, I do not think so.

SIR CHARLES ADDIS: That is also your view, Mr. Towers?

MR. TOWERS: Yes; I should say they would be very rare indeed.

SIR CHARLES ADDIS: Arbitrage operations?

MR. TOWERS: Yes, Sir Charles.

MR. KNIGHT: They are unprofitable.

SIR CHARLES ADDIS: That is the only obstacle in the way?

MR. KNIGHT: That is the principal obstacle.

SIR CHARLES ADDIS: I am sorry to insist upon this so much, but does that not hold true under normal conditions?

MR. KNIGHT: The public do not really appreciate the advantage of the excellent rate services we have from New York, and in some cases from London for the New York dollar. That is a market which is active; there are very few occasions when it is narrow; generally it is an active market, with which we are constantly in touch either by our private wire, which, of course, is instantaneous, or by telephone. We use the New York telephone extensively in closing transactions.

SIR CHARLES ADDIS: But there are occasions, I should have thought when there was a profit in arbitrage operations under favourable circumstances. Do I understand the banks shut their faces against that?

MR. KNIGHT: They do not shut their faces. If they can see a profit, they will take it.

SIR CHARLES ADDIS: So the answer is they will engage in arbitrage operations when they think they will be profitable?

MR. KNIGHT: I would not like the impression to be created that they engage in arbitrage operations, as an ordinary part of their business, because they do not.

SIR CHARLES ADDIS: But you agree that the point is that the banks, seeing the possibility of a profit, will not be deterred by the pedantic idea of engaging in arbitrage operations?

MR. KNIGHT: Yes. Our exchange trading opportunities may appear limited to the outsider, but having close contacts with London and New York the facilities afforded are, I think, sufficient. In considering the relations between Canada and the United States, cognizance

must be taken of transactions originating in New York and the large Canadian balances held by Americans, such as deposits of subsidiaries of United States corporations which create a fund for New York's operations in Canadian dollars. The market in the United States for Canadian dollars is an important factor; some days it [illegible] than ours for United States dollars. This fund is an advantage generally in exchange operations but it may also be a source of danger in stabilization operations as it is available on demand.

COMMISSIONER LEMAN: Pursuing that question: Through your direct contact with London, New York and Paris, are you not in a position to take advantage of the large arbitrage operations carried out by those banks?

MR. KNIGHT: Yes, they should broaden the market.

COMMISSIONER LEMAN: So you have the effect of them?

MR. TOWERS: We do not know why it is a better market in London; we simply accept the fact.

COMMISSIONER LEMAN: You are aware that the European banks, or if not the banks, the brokerage organizations, which do a very large arbitrage business are a factor in establishing a rate on a certain market?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: And you get the benefit of that rate?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: On account of the direct communication you have from London or New York or Paris or Amsterdam or Berlin?

MR. KNIGHT: The more markets we have contact with, the better we can conduct our operations.

COMMISSIONER LEMAN: You do get the benefit of arbitrage operations carried out by others?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: That is the only object of my question. That is right, too, Mr. Towers?

MR. TOWERS: Yes, Mr. Leman.

THE CHAIRMAN: We are very much obliged to you, gentlemen, and I do not think it will now be necessary to trouble you to prepare a written statement, unless my colleagues [illegible] it. This will be placed at your disposal, and you may go over it and revise it. Perhaps you have something just now which you wish to add?

MR. KNIGHT: There is one thing I would like to add. It seems to be the impression of the general [illegible] that a direct market for sterling can be created entirely independent of New York influences. This, I think you will agree is an impossibility at any time. The feeling is that we are paying tribute to New York on all exchange operations which is not a fact; moreover, if it were possible to confine our activities to a direct market the public in my opinion would suffer by being debarred from taking advantage of outside facilities.

At the request of the Prime Minister a bank committee was appointed some two years ago, of which I was a member, and we went into the whole matter thoroughly. The Committee reported that in their opinion an independent direct market was an impossibility.

SIR CHARLES ADDIS: Is that report available?

MR. C. E. S. TOMPKINS: I think I have a copy. In any event, it can be filed.

COMMISSIONER LEMAN: There is one point we should not forget, because it is a matter which has been called to our attention in Victoria. Is there any indication you can give us as to the facilities you provide for trade with the Orient? Can you give us any information on that point?

MR. KNIGHT: Trade with the Orient was financed until recently by United States dollar credits. Mr. Towers can probably answer that question better than I. There are still some United States dollar credits running.

HON. MR. BROWNLEE: Financed very largely through large Japanese firms, with headquarters in Seattle?

MR. KNIGHT: Yes, and Chinese, too.

COMMISSIONER LEMAN: It was represented to us that the Canadian dollar was little known, if known at all, in the Orient, and that there might be some decided advantage in having established an exchange rate for the Canadian dollar. Would you have anything to say on that point?

MR. KNIGHT: It is my impression that the Hong Kong and Shanghai Bank, and the Yokahama Specie Bank both give Canadian quotations.

COMMISSIONER LEMAN: On the basis of United States exchange or Canadian exchange?

MR. KNIGHT: I think they receive wires from their offices in San Francisco, giving the discount on the Canadian dollar, or the premiums on the United States dollar as the case may be, and from that they work up their Canadian rate.

COMMISSIONER LEMAN: So would you say that there again the largest market in exchange must be the dominating factor? In other words, a much larger volume of business --

MR. KNIGHT: I think so, although there is a little complication there. We have not the contacts with Yokahama and Shanghai that we have with London, Paris and New York, and there would not be the flow of rates giving any change in Canadian discount. Yokahama and Shanghai would possibly receive only one rate a day, and in that case there might be a considerable margin of safety provided for in the quotations of the Japanese and Chinese banks for Canadian dollars.

COMMISSIONER LEMAN: Would you say there was something lacking in the way of developing a direct contact --

MR. KNIGHT: No, having in mind the present volume of trade.

COMMISSIONER LEMAN: You do not think the present volume of trade would warrant establishing a direct exchange

MR. KNIGHT: I think if it did, the Japanese banks and the Shanghai banks would be very quick to take advantage of it. I understand their exchange market there is quite keenly competitive, is it not, Sir Charles?

SIR CHARLES ADDIS: Very competitive.

MR. KNIGHT: If there was an opportunity for developing, they would take advantage of it.

SIR CHARLES ADDIS: The suggestion put forward to us was that the Canadian banks would do well to establish

branches in China in order to get that contact of which you speak, and I take it that your answer would be that the volume of business would not justify it.

MR. KNIGHT: I am speaking for ourselves -- and I am sure Mr. Towers can confirm it -- when I say that the Canadian banks have gone very thoroughly into the matter and have reached the conclusion that the present is not the time.

Eighteenth
JANUARY
1932

Circular No. 87 - I

The General Manager.

Dear Sir:

The minutes of the conference between the Prime Minister and the bankers at Ottawa on the 16th December 1931, contains the following:

"The Prime Minister said there were two matters which he wished to discuss with the banks:
The first, which was not so immediate or pressing, was as to the possibility of establishing, probably at Montreal, an exchange market which would do away with the necessity of Canadian business and financial interests buying foreign exchange in the New York market, through the instrumentality of which all Canadian international financial settlements are now made . . . ."

Under the direction of the President, the following Committee, of which Mr. R. E. Knight of the Bank of Montreal acted as convener, was appointed to inquire into and report on the proposal:

Mr. R. E. Knight	Bank of Montreal
Mr. E. Holmes	The Canadian Bank of Commerce
Mr. J. L. Lawson	The Royal Bank of Canada
Mr. L. P. St. Amour	Banque Canadienne Nationale
Mr. H. D. Scott	Imperial Bank of Canada

The President now directs that a copy of the Committee's report as attached hereto be sent to each bank.

The President requests that you be good enough to examine the report, and if you have any suggestions as

to amendments or additions to the report, the President would be glad to have them submitted so that the report as made, or as it may be amended, may be presented to the Prime Minister in due course.

Yours truly,

(Signed) Henry T. Ross,

Secretary.

Enclosure to Circular No. 87 - I

Report of the Sub-Committee, named by the President of The Canadian Bankers' Association on January 7th, 1932, to consider the Prime Minister's suggestion as to the feasibility of establishing an exchange market in Montreal, which would function independent of the New York market.

The feeling of the Committee is that the reports which have appeared in the press from time to time have given rise to misunderstandings on the part of the public as to the value of Canadian funds in terms of other national currencies, and have created the impression that the buyer or seller of any exchange in this country pays toll to New York because the price paid for exchange actually works out to the New York dollar price, plus the prevailing premium on New York funds. This is not the case.

The chief confusion in the mind of most of us on this subject is caused by the fact that Canadian currency and United States currency are both called "Dollars". If United States currency were given another name, say "Money", there would be no suggestion that our rate was subservient to New York. For example: 100 yen might be worth, say 40 Canadian dollars and 30 United States "money", and ipso facto, 30 United States "money" would be worth 40 Canadian dollars. Any change in the value of yen or Canadian dollars in terms of United States "money" would be reflected in the value of yen in Canadian dollars.

The exchange of any country is similar to a commodity which is of international value in that its price

is established by the single law of demand and supply. It is impossible to set up in Canada an exchange market independent of New York and London, because all exchange markets are dependent on each other. The country having the largest volume in any given currency usually dominates the market in that currency, but the relation in quotations at various points is maintained by a system of arbitrage. For example, if the rates between

LONDON and PARIS
PARIS and BERLIN
BERLIN and LONDON

are out of line, so that it is profitable to sell sterling in Paris, and with the proceeds buy German marks, which in turn are invested in sterling, and the resultant operations will show a profit, such operations will be immediately undertaken by exchange dealers until the equilibrium is restored.

MONTREAL, NEW YORK and LONDON are in the same position. The rate between LONDON and MONTREAL must tend to equal the rate between LONDON and NEW YORK, plus the premium, or minus the discount on New York funds in Montreal. Otherwise, transactions will immediately gravitate to the point where they can be most easily and profitably handled.

There is an active turnover in MONTREAL and TORONTO in United States dollars. The rate for Canadian funds in NEW YORK and LONDON reflects the market for United States funds in Canada, but, we again emphasize, the price is governed by the law of SUPPLY and DEMAND, wherever that demand and supply exists.

The seeming disparity between the premium on New York

... in Canada and the equivalent discount in New York, is merely a matter of simple arithmetic, and is caused by the difference in the principal amounts involved, upon which a fixed amount of premium or discount is calculated. For example, with New York funds at 25 per cent premium, $100 New York funds is equal to $125 Canadian; therefore, $100 Canadian is equal to $80 United States funds. Eighty deducted from 100 gives a discount of 20 per cent on Canadian dollars in the United States.

Apart from United States dollars, the currency in which we are most interested is sterling. Our exports to Great Britain considerably exceed our imports and we should, therefore, be sellers of sterling on balance, but this balance due to Canada may be liquidated in three ways:

(a) The Canadian exporter may draw on GREAT BRITAIN in STERLING, thus creating BILLS OF EXCHANGE on LONDON;

(b) The importer in GREAT BRITAIN may set up Canadian dollars from his end;

(c) The importer may provide sufficient United States Dollars which will net the exporter the required amount of Canadian dollars.

The course which will be chosen is the one that appeals to the importer, since, in commodities, the present is a buyer's market. "(b)" and "(c)" may thus be used extensively and reduce the amount of sterling to be marketed from Canada.

In the daily accumulation of exchange transactions

in the various banks, there will always be a certain number of sales to clients which are offset by purchases from other clients, particularly in United States dollars and sterling. These offsets at times run into large figures, and it is merely the balance for which cover has to be obtained in the open market. This cover is not always procured abroad, because there are occasions when it is possible to trade between Canadian banks, particularly in sterling. Even when cover is not available in Canada, it is not invariably obtained in New York. Many transactions are covered in London, but owing to the difference in time, London is closed before noon in Montreal and Toronto. Therefore, all later covering operations must be carried out in New York, or held over until the following day, with the consequent risk.

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To sum up, we are of the opinion that Canadians are not handicapped by the method now followed in buying and/or selling their exchange. In fact, they are better served by having access through exchange dealers to the markets for exchange in other centres than they would be by having any group attempting to regulate exchange values between Canada and any other country, without taking into consideration the values in other markets.

Canadians requiring exchange on any country in the world, except those having prohibitive government restrictions have no difficult in obtaining it at fair rates through their bankers. In the larger cities the service is quite up to that given in New York or Chicago, and in the smaller cities and towns, Canadians are better served than are United States' citizens similarly placed.

12th January, 1932.

THE CHAIRMAN: I think that completes our sitting, except that I desire to ask Professor Jackson one or two questions.

Mr. Jackson, at the early stage of our proceedings, I think I was responsible for asking the question whether there were any suggestions as to the sufficiency of the statutory returns under the Bank Act, which the banks make from the point of view of the information which they afford, and as the forms of returns are scheduled to the Act, they form part of the statute, and therefore is before us as a matterfor revision.

I am going to ask you now the question, not in your capacity as advising the banks, but rather in your capacity as an economist, interested in the data of your profession. I think you have consulted with one ortwo of your friends on this subject and have a suggestion or to make as to the form of returns.

MR. JACKSON: I would rather make the suggestions at leisure in writing than make them this afternoon, because of the limitations of what is possibly a factor in the case, and while one might lay down an abstract of information, one would not like to say it would be good for the country to have. Until one has looked at the concrete difficulties of getting information from banks scattered all over the place, I doubt if any opinion I could give you this afternoon would be a very safe opinion. I could give you a memorandum by the middle of next week which would incorporate the knowledge of the accountants who have to make the statements up, and which would be on absolutely safe ground as far as the possibilities are

concerned.

THE CHAIRMAN: I wanted to get a couple of sentences down on the notes to show that the topic was not overlooked, and if you will adopt the course you suggest, and send us a memorandum within the limits of reasonable practicability, we may touch upon the subject in a sentence or two in our report. I wanted to see that the subject was covered.

One does not want to put upon the banks the obligation of providing academic figures. Statistics are mounting up in the world at a most appalling rate, many of them of no real value, but if you have any suggestion to make which is useful we will be very glad to have it.

MR. JACKSON: I would think we might suggest a little more simplification, rather than an enlargement of the report.

COMMISSIONER LEMAN: There may be one question you could answer now. The monthly returns of the banks are to a certain extent statistical; that is to say, they do not flow out of a balanced statement, after the books are closed. Would you consider preferable to have a semi-annual complete statement drawn from balanced books or a continuation of the statistical information given out monthly in the returns of the banks? Could you answer that question now?

MR. JACKSON: The annual statement is in a somewhat different form than the monthly statements, and I think is not only more simple, but perhaps also in a more useful form. It has not the small items attached to it

for immediate purposes.

COMMISSIONER LEMAN: The yearly statement?

MR. JACKSON: Yes, the yearly statement. On the ot
r I doubt if making that statement regularly half yearl
than yearly would in itself add a very great deal
knowledge of the fluctuations we are trying to
study.

My own feeling with regard to bank statements generally, speaking as an economist, is that they should be as simple as possible, as frequent as possible, and as little delayed as possible in publication.

COMMISSIONER LEMAN: Therefore it must be somewhat in a statistical form, because you could hardly expect a bank to cl its books every month.

MR. JACKSON: No.

COMMISSIONER LEMAN: So that it would be a question of studying the statistical information which might be made available every month by the banks.

MR. JACKSON: Yes.

COMMISSIONER LEMAN: Is there any great advantage in the distinction which is being made between the monthly returns, in which deposits are classified as "demand" and "notice deposits", versus the Annual Statement in which they are classified as "Non-interest-bearing" and "Interest-bearing" deposits.

MR. JACKSON: I think the annual classification is to be preferred.

COMMISSIONER LEMAN: And you would think of suggesting a greater uniformity as between the yearly and monthly

returns?

MR. JACKSON: I think so. May I add that from t. standpoint of economic study, it is the aggregate figures of all the banks which are of real interest, and not the individual figures of the banks which are really incidentally only part of that aggregate, and it might be possible with a frequent aggregate return to add a good deal to the country's knowledge, without t necessity of publishing all the figures of the individua banks, which would add hundreds of items to the statemen:

COMMISSIONER LEMAN: I understand you will give us some writt n recommendations on that point?

MR. JACKSON: I hope to by the middle of next wee

SIR THOMAS WHITE: I think there is one feature y must bear in mind, and that is that the only reason for publication of this information is to disclose the c itions of individual banks, so far as it may be disc by a statement.

MR. JACKSON: I have that in mind. I was speakin of it purely as a subject of academic study, when I made my last remarks.

COMMISSIONER LEMAN: Pardon me for asking one ot question. Have you taken into account the fact that the was some divergence of classification as between bank returns in the United States and those in Canada? There been some correspondence exchanged between Canada and statisticians in the United States, to try and bring abou uniformity.

MR. JACKSON: I did not know of that correspondenc

THE CHAIRMAN: That concludes our sitting for this afternoon.

The Commission adjourned.

MEMORANDUM FOR THE INFORMATION OF
THE ROYAL COMMISSION ON BANKING AND CURRENCY
PREPARED BY
[illegible] KNIGHT, MANAGER
OF THE FOREIGN EXCHANGE DEPARTMENT OF THE
BANK OF MONTREAL

My Lord and Gentlemen of the Royal Commission
on Banking and Currency,

My duties require the supervision of all foreign exchange operations of the Bank of Montreal in Canada and Newfoundland, and certain of those in London and New York. The remarks following in respect to general routine will apply particularly to that bank, but I believe they may be taken as fairly representative of the methods followed by at least four other banking institutions here.

THE FUNCTION OF THE
FOREIGN EXCHANGE DEPARTMENT

The Foreign Exchange Department, which is a part of the Head Office, supplies, with one or two exceptions, all the requirements of the branches, and furnishes rates of exchange for the purpose. It acts as a clearing house, sets off purchases against sales, and obtains cover for the residue in the local or other markets, as circumstances require.

It is essentially a service department for the benefit of the branches, and profits are a minor consideration. The spreads between buying and selling rates, referred to subsequently, do not represent profits, but are in the nature of margins of safety, varying according

market uncertainties. Therefore, the rate quoted to
[illegible] nt will not be the same as that given by the
[illegible] Exchange Department, as it will include the profit
of the local branch.

ESTABLISHING TRADING RATES

There are local markets in both Montreal and Toronto; the former has six (6) brokers, the latter two (2). These brokers do not act for their own account, but merely as intermediaries, receiving a brokerage of 1/64 of 1 per cent on United States dollars and 1/16 of a cent on sterling.

Open market trading is confined exclusively to the banks, corporations and individuals obtaining their requirements direct from their bankers, which requirements are thus a private matter between client and banker.

[illegible] not mean an absence of competition; on the [illegible] competition is usually keen.

The local market for sterling is narrow, difficult, and often one-sided, for reasons which will be explained later, but there is usually an active market for United States dollars. In consequence, there are frequent occasions when it is not possible to trade in sterling locally between banks at rates as favourable as are obtainable by "arbitraging" through New York.

In practice, trading rates in sterling cannot be established by local demand and supply, because either one or the other is often absent, but are built up from the rate for sterling in New York, or United States dollars in London, plus the premium or minus the discount on United States dollars in Canada.

Having direct wires with their New York offices, the banks receive instant advice of all market changes. In fact, in an erratic market, the flow of telegrams is practically continuous. A change in the New York sterling rate does not necessarily involve a change in the Canadian sterling rate, because it often happens that in New York the Canadian rate will advance and decline with sterling and, therefore, the Canadian sterling rate will remain stationary, or subject to minor variations. On the other hand, quite frequently the Canadian dollar declines in New York when sterling advances, when, obviously, variations in the Canadian sterling rate will be wider than in the New York sterling rate.

RATE DISTRIBUTION

All rates supplied to branches are in Canadian dollars or cents per foreign unit.

The rate distribution is divided into THREE classes:

(1) Branches in the large centres, say, Montreal, Toronto, Vancouver, Winnipeg, Ottawa.

(2) The medium sized branches.

(3) The small branches having trifling requirements.

Montreal and Toronto receive advices of all market changes and trading rates of the Foreign Exchange Department, which latter are not binding on the Department. These offices may cover their transactions through the Foreign Exchange Department or in the open market, as they see fit. All other branches in these cities and else-

where throughout Canada must cover with the Foreign Exchange Department.

The Foreign Exchange Department is in close touch with Vancouver, Winnipeg and Ottawa by telegraph, and these branches have trading rates binding upon the Department, which are continually revised, in accordance with prevailing markets.

The medium sized branches receive binding trading rates from the Foreign Exchange Department daily, and more frequently, if market variations and local conditions require it.

The small branches receive daily, or otherwise, as mails permit, a rate bulletin, which is mailed to them from distributing centres strategically situated throughout the Dominion. These rates are furnished to the distributing centres by telegraph from the Foreign Exchange Department, being made up according to the market prevailing at the time the telegrams are despatched.

Any branch may apply by telegraph or telephone to the Foreign Exchange Department for special quotations, if circumstances require, the quotations being for a definit amount, and subject to immediate acceptance.

Branches are given rates for all foreign currencies required.

SPREADS. Spreads between the buying and selling rates in all these classes will depend upon the state of the market at the time they are set, and the length of time which will elapse before the advices of closures are received. It, therefore, follows that the spread, in the case of the mail bulletin, is usually higher than those in other classes; it

ranges from 1/64 of 1 per cent for United States dollars and 1/8 of a cent for sterling, to possibly 1 per cent and [illegible] cents respectively. While there is no agreement between the banks as to spreads and limits, these are fairly uniform over a period, but occasionally differences are apparent.

LIMITS, up to which branches may commit the Foreign Exchange Department, without previous reference. In normal times, the limits in Class 1 may be as high as,

$250,000 United States Dollars
and
£25,000 Sterling.

In the present abnormal times, they are necessarily reduced to, say,

$ 10,000 United States Dollars
and
£2,000 Sterling.

In Class 2, they vary widely, according to local requirements and geographical situation.

In Class 3, they are, roughly,

$ 1,000 United States Dollars
and
£200 Sterling,

which is ample for the communities which these branches serve.

ADVICE OF CLOSURES. In Classes 1 and 2, all amounts closed under the rates given are advised to the Department promptly by telegraph. In Class 3, by mail.

TURNOVER, OFFSETS AND RESIDUE

The total turnover for all of the Canadian banks, which includes all usances and forward exchange, varies widely, not only from day to day, but from year to year, and, for the purpose of this memorandum, may be set at a

rough daily average of £350,000 and 4,000,000 United States Dollars. All other foreign currencies are of minor importance, and may be ignored, except to remark that as exports to the respective countries are usually invoiced in either sterling or United States Dollars, operations are practically confined to outgoing remittances.

Owing to the small number of banks and the many branches which these institutions maintain throughout the country, it follows that in the concentration of exchange operations in the Foreign Exchange Department, there are many opportunities of matching purchases against sales -- otherwise known as "marrying." These offsets also vary widely, but may be placed roughly as [illegible] in normal times, 50 per cent in the case of sterling, and 70 per cent in the case of United States Dollars, of the total turnover. In present abnormal times, owing to market risks, they are necessarily lower, and may be placed at 25 per cent and 50 per cent respectively.

After eliminating the offsets, there remains the residue, which, in the case of sterling, is usually covered immediately. It is seldom that this can be done by a direct operation in the local market. Therefore, if we are "short", the practice is to either buy sterling in New York, or sell United States dollars in London. The United States dollars thus required, reduce our United States dollar residue, or add to it, according to whether we were previously over or short.

In speaking of the RESIDUE, it must not be assumed that covering operations are withheld until, say, the close of the day. The practice is to cover immediately

a position is known, particularly under present conditions; this may occasionally involve buying back funds previously sold on the same day.

OPEN MARKET OPERATIONS
- and -
FIRM MARKET ORDERS

As it is seldom that sterling can be covered in the local market advantageously, the usual practice in open market operations is to cover sterling in New York and cover the resultant New York dollars in Canada. This also applies to 'firm' market orders received from clients.

While there is usually an active market for United States dollars, extreme care is required in our open market operations, as any attempt to press sales or purchases, when the market is not favourable, may result in violent temporary fluctuations in the rate, which general conditions do not warrant. A bank may, therefore, be forced into carrying a long or short position for one or more days, but is seldom that such position is large. In normal times, there may be extensive operations in the placing of idle reserves abroad, but the exchange positions thus created are a part of the Head Office financing and entirely separate from the Foreign Exchange Department's operations.

OPERATIONS WITH LONDON

The closing of our market for United States Dollars, often accompanied by 'firm' overnight bids or offers for United States Dollars against Canadian Dollars, is cabled to London daily. From these rates London build up their opening Canadian Dollar quotation. All important

changes in the United States Dollar rate in Canada are cabled, as long as the two markets are operating. It appears that London prefers bids and offers for United States Dollars rather than for Sterling on a Canadian basis, because the market for Canadian Dollars is limited and if the Sterling rate for United States Dollars is erratic, [illegible] difficulty in establishing a trading rate for Canadian Dollars, unless they have some indication of the value of United States Dollars in Canadian terms.

We receive London's market quotations for United States Dollars and their nominal quotations for Canadian Dollars daily from 7.00 a.m. until the New York market is opened. This often enables us to cover advantageously in London overnight positions, or to execute 'firm' orders on hand. Even when the New York market has opened, we exchange bids and offers for Canadian Dollars against both United States Dollars and Sterling as circumstances warrant.

ARBITRAGE

As the banks continually revise their local rates for sterling, in accordance with market changes between London and New York, and between New York and Montreal, it will be seen that it is seldom possible to carry out a Montreal-London-New York swap "arbitrage" with profit. There are occasions, however, when attempts are made to sell Sterling in this market, to disguise the selling of United States Dollars.

TIME BILLS

There is keen competition between the banks for

short term documentary, produce and grain bills, which are purchased on the basis of the London market discount [illegible] in some cases a concession is made in anticipation [illegible] bills being paid under rebate. The seller is thus obtaining funds on more favourable interest rates than such bills would carry in London, even with the drawee's acceptance. Under present conditions, when the London discount rate is below the rebate rate, the basis is approximately 1½ per cent per annum.

FORWARD EXCHANGE

The banks have encouraged their clients to avoid exchange hazards on future trade commitments by the purchase and sale of forward exchange, and this has so far become the practice that on occasions forward operations represent 50 per cent of the daily turnover. While the [illegible] practice in foreign exchange markets is to confine [illegible] to 3 months' delivery, the banks at times extend these periods to possibly six months, to protect their clients, which necessitates the creation of temporary balances abroad, or the arrangement of credits.

PUBLIC OPINION

Considerable publicity has been given to the fact that we have no active direct market with London. The impression prevails among the uninformed that it should be possible to conduct sterling operations entirely independent of New York influences.

Montreal is no more exempt from outside influences than any other of the world's exchange markets, and an independent direct market could not be operated without

severe restrictive measures, which could not be other than harmful to Canadian trade. Our financial situation cannot be compared to a country like Australia, because of the influence which the United States has on our affairs. It is sufficient to mention the enormous balances held in Canada for United States depositors, particularly Canadian subsidiaries of United States corporations, which funds are in the majority of cases subject to with[illegible] demand.

When trading is not subject to national or political restrictions, it may be taken as axiomatic that the more markets available, the easier transactions can be carried [illegible]. Therefore, the Canadian public, far from suffering [illegible]ity, should benefit from having easy access to the N[illegible] York market.

At the suggestion of the Prime Minister, a subcommittee was appointed by the Canadian Bankers' Association on January 7th, 1932, to enquire into this matter, and a copy of its report has been filed.

Brief

Compiled and delivered on behalf of

THE BRITISH COLUMBIA BOND DEALERS ASSOCIATION.

To the Royal Commission appointed by the Government of the Dominion of Canada to inquire into and make recommendations as to any necessary Amendments to the Bank Act of Canada.

YOUR LORDSHIP and GENTLEMEN:-

May I take this opportunity of expressing for the various business organizations comprising the membership of The British Columbia Bond Dealers Association, which I represent, their appreciation of any consideration which you may at this late date accord this Paper. It is a matter of exceeding regret to us that in view of the extremely limited time afforded between the announcement of the fact that your distinguished Commission would hold public sessions in Western Canada, and its appearance in Vancouver, it was quite impossible to prepare and present a paper which would be at all adequate.

We consider that the opportunity of presenting our views to such an important Commission could not possibly be overlooked even although it has entailed the expense of a trip from Vancouver to do so. Any suggestions which we advance are submitted with a view to improving the operation of an Act which has, everything considered, performed its purpose up to the present very creditably.

REVIEW ACT MORE FREQUENTLY.

For the Parliaments of Canada, even with a background of decades of experience to have designed an Act which even although not open for revision from 1923 until 1934 and which has nevertheless created so few inequalities

during a period of such history making experiences in finance, is truly remarkable and a creditable performance. However, it appeals to us as reasonable that had the Bank Act been reviewed in 1928, it is quite possible that beneficial amendments would have then been made which would have assisted materially in alleviating the hardships to which businesses generally have been a prey since that time. We think that the period from 1934 to 1943 will see witness many unprecedented and unforeseen developments in finance which will warrant a further review of the Bank Act not later than 1939. Even having in mind the expense incurred thereby it is our considered opinion that the public interest will best be served by a more frequent review than decennially and we respectfully submit for your consideration our recommendation to that effect.

Curtail Banks activities in
retailing securities,

For us to attempt to suggest that our interest in the Bank Act is purely from the standpoint of becoming public benefactors would immediately lay our motives open to suspicion. In order to avoid any question of the sincerity of our representations let us immediately explain that our prime interest in appearing in this matter is to use our best efforts to have the banks' activities in the underwriting and distributing of securities eliminated or at least greatly curtailed and properly defined in the Bank Act.

Violation of the Act

We think that a disinterested and unprejudiced examination of the facts will disclose that not only is it

distinctly harmful from the standpoint of the Country as a whole to have the banks encroaching on other businesses which are not proper banking functions but also that it is a direct violation of the Bank Act, which idea is supported by the Supreme Court of Canada by a decision in March 1932 of Mr. Justice Duff, who is at present the Chief Justice for the Dominion of Canada, in the case of Royal Bank vs Mack (1932) 1, Dominion Law Report Page 753.

The circumstances of this case have such an important bearing on the whole matter of the banks dealing in securit and their attitude generally in the matter of encroaching on other businesses that we will take the privilege of presenting this case in full.

Supreme Court of Canada Case
Royal Bank vs Mack.

"APPEAL by the defendant from the judgment of the British Columbia Court of Appeal (1931) 3 D.L.R. 237, 44 B.C.R. 81, affirming the judgment of Macdonald, J., (1931) 2 D.L.R. 538, 43 B.C.R. 371. REVERSED - A.J. Mann, K.C. for appellant; T.G. Norris, for respondent.
The judgment of the Court was delivered by Duff, J.:

"The agent of the appellant bank of Kelowna, one H. F. Rees, obtained from the respondent, who was a customer of the bank, the sum of $2,500. which he used for his own purposes; and in the action upon which this appeal arises, the respondent seeks to recover that sum from the bank. There is no real controversy as to the facts. Rees suggested to the respondent that some part of a sum of $3,000. which the respondent had on deposit with the bank, should be invested. The respondent was told that an investment could be found which would return interest at 8%. There is no dispute

that the respondent believed, nor do I in the least doubt that Rees intended him to believe, that in making this proposal, he (Rees) was acting as the agent of the Bank. It is equally clear that in handing over the sum of $2,500, for which he gave two cheques, (one payable to cash or bearer, and the other payable to self or bearer and endorsed by him), the respondent believed he was placing his money at the disposal of the Bank, and that Rees was fully aware of this. I should have had no difficulty in holding the bank liable if there were grounds upon which it could be affirmed that, in this transaction, Rees was doing something of a kind that, as agent of the bank, he was authorized to do, in the sense that such a transaction would fall within the general scope of his employment. I am constrained to the conclusion that the agent had no such authority, and for this reason. As I understand the evidence of the respondent, he was entrusting his money to Rees to invest it for him, at Rees' discretion, in some security of some description which would yield interest at 8%. It is plain, I think, that unrestricted discretion was committed to Rees as to the nature of the investment. I find myself in disagreement with the view expressed by one of the Judges in the Court below, (1931) 3. D.L.R. [illegible]37, 44 B.C.R. 81, that there was an implied representation by Rees that the subject matter of the undertaking was something within the Bank's powers under the Bank Act, R.S.C. 1927, c. 12, I have no doubt whatever that the respondent never thought of the Bank Act or of the powers of the Bank. Fairly interpreting the language and conduct of the parties, as disclosed in the evidence, the discretion committed to Rees cannot be held to be

limited in such a way as to bring the transaction within the scope of the Bank Act, unless an undertaking of the duty to invest for a customer, the customer's money, at the discretion of the bank; is something which falls within the scope of the business of a bank; according to the intendment of the provisions of the Act. There is no evidence before us justifying, or, indeed, pointing to the conclusion that the business of an investment agent or trustee is one which appertains to the business of banking, nor, in my opinion, does the transaction with which we are concerned fall under any class of transactions that is comprehended within the dealings authorized by s. 75 (c).

The appeal must, in my opinion, be allowed and the action dismissed with costs. "APPEAL ALLOWED."

Nine Canadian Banks in one Underwriting.

For anyone to attempt to suggest that every bank in Canada is not actively engaged in the business of underwriting and distributing of securities of practically every type and soliciting business as investment agents is entirely unsupportable. We have here an advertisement (Exhibit 1) "The Financial Times" of Montreal under date of September 1, 1933, offering for public subscription $13,500,000 of a new issue of City of Montreal bonds in which the names of everyone of the nine Canadian Banks appear. We shall recite later the public record of the underwriting and distributing by various of our banks of many issues including not a few speculative industrial bonds which have defaulted in interest and caused the investors of Canada millions of dollars of loss of capital

and income.

Banks not in Bond
business in 1923

To attempt to establish that the Canadian Banks have always engaged in this business in the same capacity as at present would be quite difficult because while it is true that during the War and for about two years afterwards when the Government controlled the prices of Victory Bonds, for the purpose of stabilizing the market, the banks were used for clearing all bonds bought or sold; their function at that time was simply to act as agent for the Government for which they received a fixed remuneration. When the Victory Bond Committee was abolished, the banks withdrew entirely from the bond business, returning to their previous policy in matters of this kind of refusing to make a bid to their customers for any bonds without arranging previously to pass the bonds on to a Bond House.

Banks' Names not in Selling
Agreement Government Loan 1923

That the banks' participation in the new issue of the Government bonds was on a very different basis in 1923 as compared to the present time is, we think, demonstrated by this copy (Exhibit 2) of the Syndicate Selling Agreement in September 1923 covering the only issue of Dominion Government internal bonds sold in Canada during that year. The first offering of these bonds, amounting to $50,000,000 and immediately increased to $200,000,000, was made by a group of four of the principal bond houses in Canada with no banks names appearing in the issue at this stage.

Bank of Montreal Syndicate Managers 1931,

Compare that with the Syndicate Selling Agreement covering the National Service Loan of 1931 (Exhibit 3) which

we have here and you find the Bank of Montreal in the position of Syndicate Managers!

Banks shirk responsibility

Consider the circumstances of the case before us. On the one hand the banks compete most aggressively by circularizing and advertising for the business of the legitimate investment houses, and on the other hand, when it comes to taking responsibility for the actions of the manager of one of the Branches of one of the Banks who defrauds the investor out of his money - the bank successfully defends itself against recovery by the swindled investor, by hiding behind the Bank Act with the contention that the Bank Manager had no authority to act as an investment agent! Aside from any legal considerations of this matter, we would like to put this question to any business man; how long would an investment house remain in business were it known that the firm would not even take responsibility for the ordinary honesty of its manager? Is not such a condition of affairs a public menace?

English Banks have wider power than Canadian

As your Lordship is probably more familiar with the conduct of banking in Britain than here in Canada, we think that it is relevant to quote here from the findings of Mr. Justice McPhillips in the B.C. Court of Appeal, in giving his opinion which was in support of that of Mr. Justice Duff of the Supreme Court of Canada in the above-mentioned case. Mr. Justice McPhillips says in part -

"This appeal calls for the consideration of the

scope of employment of a manager of a bank in Canada [illegible] under the Bank Act (Cap. 12, R.S.C. 1927). It may be at once noted that managers of banks in Canada do not occupy the same position as managers of banks in England where it may be said that banks transact a great deal of business for their customers that is wholly outside of and not within the powers of the banks in Canada to engage in and not permissible to Managers of banks operating under the Bank Act."

Were it deemed necessary to go further in demonstrating that the banks have no legal right to engage in the investment business it is simply a matter of examining the Bank Act itself as it appears in its latest form in the Revised Statutes of Canada (1927) volume 1, under the heading "Business and Powers of a Bank."

[illegible] The bank may - <u>BANK ACT</u>

(a) open branches, agencies and offices;

(b) engage in and carry on business as a dealer in gold and silver coin and bullion:

(c) deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stock, bonds, debentures and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, Provincial, British, Foreign and other public securities; and

(d) engage in and carry on such business generally as appertains to the business of banking.

2. Except as authorized by this Act, the bank shall not either directly or indirectly

(a) deal in the buying or selling, or bartering of goods, wares and merchandise or engage or be engaged in any trade or business whatsoever

(b) etc.

<u>Originated 1866</u>

In the first place, in considering this act we think it is important to bear in mind that it has been conceived in and evolved from the minds of the representatives of the people of Canada in their various parliamentary deliberations dating from 1866, and the major portion of the Act has been handed down to us by the Dominion Parliament of 1871. John D. Falconbridge, Esq., K.C. Dean of Osgoode Hall Law School, Toronto, Ontario, who is recognized as a pre-eminent authority on the Bank Act upon which he has written four books dated 1907, 1913, 1924 and 1929 has this to say in dealing, in his latest edition, with the heading - "Effect of the Act upon transactions entered into in contravention of its provisions."

<u>Necessary to restrain banks</u>

"It was said in Bank of Toronto vs Perkins that the prohibition of the Act is a law of public policy in the public interest, and that any transaction in violation thereof is necessarily null and void." etc.

In other words, we think it can be fairly said that in order to protect the public from any tendency of banks to invade any field of business that is not truly a banking function, it is necessary to specifically

define their powers. If, through the development of our financial activities, new types of businesses arise which had not been foreseen by the founders of the Act, then it is important that the, apparently always present, tendency of the banks to exploit to their own aggrandizement those fields, be definitely restricted.

Banks creep into
insurance business

In support of the suggestion that the banks always were eager to overflow the bounds of ordinary banking functions, we think that it is very significant that in 1923 it was found necessary to add to Section 75 above recited of the Bank Act the following two sub-sections:

3. No agent or manager of any bank shall act as agent for any insurance company or for any person in the placing of insurance, nor shall any bank exercise pressure upon any borrower to place insurance for the security of such bank in any particular agency, but nothing herein contained shall prevent such bank from requiring such insurance being placed with an insurance company which it may approve.

4. Nothing herein contained shall prevent the agent or manager of a bank, with chief office and branches in one province only, from acting as agent for the placing of hail insurance.

What does this suggest to the mind of even the uninitiated? Simply, that before banks were willing to make loans to prospective borrowers they insisted on having the insurance placed through a specified agency which was remunerative to the banker. To those of us

who have some knowledge of what had developed, it is well known th t in some cases, particularly in the matter of hail ins rance on the prairies, bank managers were making as much as their ordinary salaries out of insurance premiums at the expense of the legitimate insurance agent.

It would hardly seem necessary to explain that ..., was inserted for the sake of the Weyburn Security Bank, a small Bank which has since been taken over by one of the larger banks.

Exposition of Sec. 75
Bank Act.

And now to return to the main part of Section 75, does it not appeal to your Lordship that subsection 1. (c) purposely differentiates from sections (b) and (d) in wording, in order to avoid authorizing the banks to engage in the business of dealing in stocks, bonds, debentures, etc. You will note that section (b) says the bank may engage in and carry on business as a dealer in gold and silver coin etc. Section (d) says a bank may engage in and carry on such business generally as appertains to the business of banking but -- section (c) says a bank may deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stocks, bonds, debentures, etc. with no mention of permitting it to engage in the business of dealing in bonds etc. which surely can only permit of one interpretation and that is, that the intention is, and the Act states, that banks may deal for their own

account in bonds, stocks, etc. in so far as it is necessary as a function of banking.

Court of Appeal
B.C. Supports Argument

In support of this interpretation we wish to quote from the opinion of Mr. Chief Justice MacDonald of the British Columbia Court of Appeal. In dealing with the case previously mentioned of Royal Bank vs. Mack he said (B.C.R. Vol XLIV No. 2 page 84).

"It was argued that subsection (c) authorizes banks to deal in negotiable securities, bonds, etc. and while that is true this authority relates to the banks' own dealings in such securities. To hold that a Bank could deal in securities for the profit of the respondent or any other customers would be tantamount to holding that they could carry on a brokerage business which would be contrary to subsection 2 (a) of said section 75, which declares that a bank shall not engage or be engaged in any business whatsoever except such as is authorized by the Act."

As previously stated this opinion was later sustained by the Supreme Court of Canada.

Privy Council Supports
Argument

To carry this matter to the Privy Council for opinions as to the authority of Banks to advise on investments we would quote from the case in 1918 of Banbury vs Bank of Montreal Appeal Cases 626 at pages 702, 3, Lord Parker of Waddington is reported to have said:

"My Lords, in the course of the trial counsel for the appellant admitted that the manager had no general authority to advise - in other words, that

it was not within the scope of the banks' business to advise on investments at large. I take this to include Canadian investments; otherwise there would be no point in the admission. It does not appear why the admission was made. It may have been because the powers of the bank were by statute confined to carrying on a banking business; <u>and it would be difficult to establish that advising on investments was a part of the business of banking."</u>

Lord Wrenbury in dealing with the same case on page 716 in support of Lord Parker's opinion makes the following statement:

> "There remains only the evidence of Sir F. Williams Taylor" (an important official at the Bank of Montreal. He says that in recommencing investments the manager would be exceeding his authority. My Lords, in this state of things, I am of opinion that there was no evidence of authority, and that the Court of Appeal was right in holding that judgment ought to be entered for the defendants," that is, the Bank of Montreal.

The same view was expressed by Lord Atkinson in this case, pages 683,4 and we submit my Lord, that the banks are guilty of a violation of the Bank Act in engaging as they do in the business of selling securities to the public.

<u>Bond circulars issued by Banks.</u>

In support of the fact that banks are actively engaged in the business of underwriting and distributing securities we have already submitted the advertisement

tember 1, 1933 on which the name of every bank in Canada appears making a public offering of bonds. We now submit for your inspection (Exhibit 5) a prospectus dated June 25, 1928 with the imprint of The Canadian Bank of Commerce $500,000 5% bonds of Panama Pacific Grain Terminals Limited guaranteed by the City of Victoria, B.C. At the time these were issued the members of the British Columbia Bond Dealers Association were opposed, in principle, to the idea of the City of Victoria committing itself to the guaranteeing of these bonds for the purpose of having a grain elevator built in that City. The underwriting of this issue of bonds by The Canadian Bank of Commerce made possible that project.

We wish to submit next (Exhibit 6) a letter dated December 2nd, 1931 from the Comptroller of the City of Victoria reading as follows:

> "Dear Sirs: In reply to your letter of yesterday the City was called upon to advance the half year's interest due on 2nd July last amounting to $12,700. The elevator however has since been leased to the Alberta Wheat Pool and part of the rent is to be applied in repayment of this advance

We have yet failed to see the economic necessity of a grain elevator in Victoria.

Next, let us present a prospectus (Exhibit 7) dated June 22nd, 1929, offering a new issue of ten million dollars, Simpsons Limited, 6% bonds at 100. This also, bears the imprint of the Canadian Bank of Commerce. We here present (Exhibit 8) a regular bond price list of April 15th, 1933 in which these bonds

are listed at 39.50 bid. May we follow this by a prospectus (Exhibit 9) dated three days later of another new issue of five million dollars of Maple Leaf Milling Company, Ltd. 5½% bonds at 97.50 with the imprint of the same bank. If you will refer to the price list of April 15th, 1933 above mentioned, you will find that these bonds are offered on that date at [illegible] with no bid.

Bank Commerce
Monthly Bond
List Aug./30.

Next let us present to you (Exhibit 10) a printed circular dated at Vancouver August 2, 1930. This is headed in large type as follows "The Canadian Bank of Commerce Bond Department Vancouver Monthly Offering List." Printed on the front of it in red is this inscription -

> "Investment in high-grade bonds is one excellent method of accumulating a substantial estate. We suggest that to begin a systematic savings plan for investment, it would be advantageous to open with this Bank a special Savings Account, in which you would deposit a certain amount at regular intervals." This is followed in bold type by "Securities Bought, Sold or Quoted."

In this list there is a total of sixty-six different issues of bonds offered. It is interesting to note that three of the issues offered - and which one might be presumed to infer - are to be considered "high-grade bonds" designed to give effect to the Bank's "excellent method of accumulating a substantial estate" are one hundred thousand dollars of Beauharnois Power Corporation, 6% bonds at a price of 100 - Five thousand dollars of

Abitibi Power and Paper Co. Ltd. 5% bonds at 86½ and two thousand dollars Canada Steamship Lines Limited 6% bonds at 93 all of which bonds have since defaulted and are still in default as to interest payments and were quoted in April this year at 40, 15 and 17 respectively.

German Bonds, Chili Bonds 1926.

It is also interesting to note an offering of twenty-five thousand dollars German Government 5½% bonds at 90, since quoted this year, as low as 40. The Government of Chile 6% bonds, which the Canadian Bank of Commerce joined an American Syndicate in underwriting and distributing in 1926 amounting to forty two and a half millions at a price of 93¼, are conspicuous by their absence; Possibly because the bonds defaulted in 1931 and dropped in price of 11 in New York.

Bank Commerce Latest Lists

We are sure we will weary you if we continue reciting the scores of interesting facts about this Bank's activities in the bond business. Suffice it is to let us present to you three of their more recent printed list (Exhibits 11, 12 and 13) dated June 15th, 1933, July 15th 1933 and August 1st, 1933 to demonstrate the determined and aggressive manner in which The Canadian Bank of Commerce is engaged in the business of underwriting and distributing securities.

Ontario Power Service Corporation.

In order to demonstrate the activities of some of the other banks in the bond business we wish to presen the facts about the twenty million dollar issue of Ontari Power Service Corporation Limited 5½% bonds maturing 195

In August 1930 these were issued for public subscription by a syndicate whith included five of the nine Canadian banks namely; The Royal Bank of Canada, The Canadian Bank of Commerce, The Bank of Nova Scotia, The Imperial Bank of Canada and the Banque Canadienne Nationale. The big newspaper display advertisement describing this issue upon which these five banks' names appeared, stated that the estimated [illegible] starting 1932-3 and projected into 1938-39, and [illegible] the issue came out in 1930, were to be certain amounts. This forecast of earnings was the only means of judging the value of the bonds, and may we here pay this tribute to the Bank of Nova Scotia, who had not displayed anything like the same aggression in the bond business, as had the other three largest banks; it was largely due to the fact that they were associated with this financing that, many of our members decided to take a participation in this issue and to recommend the bonds to our clients.

Moral effect of banks name.

We are making this statement because we think it is important to show the very great moral effect upon investors, to have bonds offered by a bank which, enjoys such a good reputation for conservatism and dependability. The bonds defaulted on interest payments in less than two years from the date of issue sponsored by even such an imposing group as that above mentioned. There is, however, one feature about having such an influential group involved in an issue of bonds. They were in the case of the Ontario Power Service Corporation, when that company got into such difficulties that it was unable to complete the construction of its power units, able to have

the whole project taken over by the Province of Ontario. Now the taxpayers of that Province are committed to pay the interest on a reduced basis and 90% of the face value of the principal.

Bank of Montreal.

May we now turn to the activities of The Bank of Montreal in engaging in a business which, according to the highest court in the land cannot be conceived to appertain to the business of banking. It is a matter of record in any statistical service that in December 1926 the Bank of Montreal organized The Montreal Company of New York Inc. with capital stock of $100,000. The powers of the company among others were to "underwrite and distribute investment securities." We here present (Exhibit #14) one of their printed lists under date of May 14th, 1928. Directly under the firm name appears this information: "Owned and controlled by the Bank of Montreal." The owning of this Company by the Bank of Montreal is a direct violation of the laws of the Dominion of Canada as contained in the Bank Act; but we shall deal with this matter later.

The Montreal Co. of New York.

This list, by the way, was mailed to a gentleman in Vancouver who has an account with the Bank of Montreal in Montreal and in Vancouver. Accompanying it was a booklet (Exhibit #15). The front is inscribed as follows:

> "The Canadian Securities Manual April 1928. Compliments of The Montreal Company of New York Inc. 64 Wall Street, New York, controlled by the Bank of Montreal."

On the back in large type we have the same inscription, with this added:

> "Directors and Officers - Sir Vincent Meredith
> Bart. President and Chairman of the Board
> President Bank of Montreal -- Sir Frederick
> Williams-Taylor General Manager, Bank of
> Montreal, E.W. Beatty, Esq. President Canadian
> Pacific Railway Company ----"

and so on [illegible] all the directors.

<u>Investment Suggestions by the Montreal Company.</u>

The list (Exhibit #14) of "investment suggestions" as it is headed is really not a bad one. There are [illegible] issues of bonds offered and six issues of preferred [illegible] three of the bonds are those of Canadian Companies; [illegible] the preferred stock issues are those of American Companies. Most of the bonds have held quite well in price; one declined [illegible]% as at September 8th, 1933. The preferred issues also have done quite well, on the whole, with the exception of American Power & Light, 6% which dropped from their offering price of 108 to 25 on September 8th, 1933, having been below 10 this year.

Before leaving the subject of the Bank of Montreal's venture in the American field of underwriting and distributing securities through The Montreal Company of New York, Incorporated, it is interesting to note how this enterprise has fared. The report as of October 31, 1930 to the Annual General Meeting of the Bank (Exhibit #16) shows that the had assets totalling $1,833,623.61. It had built the capital in the company up to $230,313.11 including the original $100,000. but it owed clients, etc. $167,260.44 and had bank loans of $1,[illegible],050.06 which would appear to be very generous accommodation for a company of such small capital.

In the Banks report of October 31, 1932, (Exhibit #17

... ntire entry for the Montreal Company of New York

... ted was as follows:

> "Cash in bank $1,000. Capital Authorized and issued 1000 shares at $1.00 each $1,000.
> Note - This Company's activities have been discontinued. The capital stock is entirely owned by the Bank."

We have failed to find in the report of the Bank any further reference to the Company.

National City Co. Ltd. Booklet.

The same gentleman in Vancouver received about that time another interesting publication in the form of a little booklet (Exhibit #18) undated, entitled, "Putting Your Dollars To Work."

"The National City Company Ltd."

Now you might wonder what connection there can possibly ... en having a credit balance in the Bank of Montreal ... ational City Company Limited; but let us examine this booklet. The first page reads as follows:

> "To assist investors in placing their surplus funds securely and profitably at work we are setting forth briefly in this booklet the fundamentals of a sound investment policy. The National City Company Limited, Charles E. Mitchell, President, President The National City Bank of New York Norman L.C. Mather Managing Director."

Then follows a list, which is prominently displayed, of the Advisory Board, namely:

> "Sir Charles B. Gordon, G.B.E. President Bank of Montreal, President, Dominion Textile Company Ltd. Director, The Royal Trust Company. Sir John Aird President, The Canadian Bank of Commerce, Director National Trust Company, Director Western Assurance Company, Director, Imperial Life Assurance Company of Canada. W.A. Black, Esq. President, The Ogilvie Flour Mills Company Ltd. Vice President, Abitibi Power and Paper Co. Ltd. Director Bank of Montreal, Director Canadian Pacific Railway Company, Director, Dominion Textile Company, Ltd.

A.J. Brown, Esq., K.C. Director The Royal Bank of Canada Director, The Montreal City & District Savings Bank. Vice President Montreal Trust Company. Hon. Sir Lomer Gouin, K.C.M.G. Director Bank of Montreal, Director The Montreal City & District Savings Bank, Director The Royal Trust Company, Director, Laurentide Company, Ltd. Wilmot L. Matthews, Esq. Director, The Dominion Bank, Director Confederation Life Assurance Company, Director, The Toronto General Trusts Corporation, F.E. Meredith, Esq., K.C. Director, Bank of Montreal, Director, Canadian Pacific Railway Company, Director The Montreal City & Distric Savings Bank, Director The Bell Telephone Company of Canada Ltd. Lt. Col. Herbert Molson, C.M.G., M.C. Director, Bank of Montreal, Director The Royal Trust Company. Edson L. Pease, Esq. Vice President The Royal Bank of Canada, Director Montreal Trust Company, W.N. Tilley, Esq., K.C. Director, Canadian Pacific Railway Company, Hon. J.M. Wilson, Director, Banque Canadienne Nationale."

Bank Directors in List.

We think it may be truly said that it is remarkable, that with one exception, the members of this Advisory Board are directors or officers of Canadian Banks. The one exception, according to this list is Mr. W.N. Tilley who has since become a Director of the Bank of Montreal.

Article in Fortune re National City.

Speaking of the National City Co. Ltd. we wonder if the distinguished gentlemen of the Advisory Board [illegible] company saw this reference in an article in the American publication called "Fortune" under date of July, 1933, to the parent company, The National City Company. In an article entitled "Kreuger III" on page 74 the following appears:

> "There was, for instance, the now well known example of the National City Bank which, while closing out the accounts of its old customers during the crash and forcing employees to pay in depression dollars for stock bought at boom prices, lent $2,400,000. (of which only five per cent has been paid back) to its own officers to support their market commitments; And there was also the bonus of $3,400,000 over and above salary paid by the same bank and the National City Co. to Charles Mitchell in 1927 and 1928 and 1929."

National City and Minas Geraes.

The article continues:

> "And there was also complacence about the sale of securities. The National City Co. may serve as an example. That house underwrote in September 1929, in conjunction with Henry J. Schroeder & Co. of London, an issue of $8,000,000 of bonds of the Brazilian State of Minas Geraes. The underwriters knew that the State of Minas Geraes had defaulted on $42,000,000 of its bonds marketed in London and Paris from 1907 to 1916. They presumably knew that George F. Train of National City's Foreign Department had written in April, 1927, a letter stating that 'the laxness of Minas Geraes finances is almost fantastic' and that 'it would be hard to find anywhere greater ineptitude, negligence and carelessness in the handling of its external loans.' They knew that the real purpose of the $8,000,000 issue was 'partly with a view to' repaying the National City Co. for earlier short term advances to the State amounting to $4,000,000. And yet National City issued a prospectus certified to by Mr. Train declaring that the purpose of the issue was to increase 'the economic productivity of the State of Minas Geraes' and stating that 'prudent and safe finances had been axiomatic of successive administrations in the State of Minas Geraes.'"

Canadian Bankers' Names used for American houses.

Your Lordship and Gentlemen, what a vista of possibilities such a state of affairs presents! We will not attempt to tie in to Canadian financing some of the unpardonable abuses resorted to by American banks and their security distributing affiliates. Suffice it to say that it must be considered regrettable that Canadian Bankers lent their names to American controlled houses, no doubt for the purpose of distributing - shall we call them securities - to Canadian investors.

American Banks Quit Bond Business.

In leaving the matter of the National City Co. Ltd. we think that it is in place to say that that Company has discontinued its selling activities in Canada,

we suppose to the fact that through the sweeping ... on of the feeling on the part of the American public towards the idea of banks exploiting their positions as they have in the past through their positions as they have in the past through their security selling affiliates - the American banks are divorcing themselves entirely from that line of activity and attempting to return to the position, long ago abandoned, of again having a banker's outlook on business.

Canadian banks still aggressive.

In order to show that no such step appears to be contemplated by Canadian banks may we add to all the evidence previously related just these two exhibits ... and 20) - a printed list dated April 1933 headed ... nt Securities, Current Quotations by Bank of Montreal," offering a mixed list of 36 different bonds and a page from the "British Columbia Financial Times" dated May 20, 1933 in which this display advertisement appears - "Investments. The services of our Bond Department are available at all times - the Dominion Bank Vancouver Branch" etc.

And now, to refer to the subject of Canadian Banks having a partnership interest, whether by control or otherwise in any other business; not only would such an idea reduce the relationship of the bank to its depositor to an absurdity, but also it is diametrically opposed to the wording and the spirit of the Bank Act. ...er the ridiculous position of asking business men ...t their money in the bank for the purpose

of providing that bank with funds with which to compete with that business man in his own line of business. If a person were to find that one particular bank was engaged in his own business even if it were through its interest in the shares of another company, would he not, other things being equal, remove his funds to another bank? If eventually he is unable to find a bank in his own country that is not competing with him, we would think that the tendency, so far as surplus funds are concerned, would be to keep them in the bank of some other country.

Banks should be Lenders.

Surely one of the functions of banking is the pur- of credit, and if our Canadian Banks are to be to retain a partnership interest in any business, does that not immediately suggest a condition of discrimination between legitimate borrowers? How, My Lord and Gentlemen, can the Bank of Montreal justify its interest in the Montreal Company of New York Inc.? True that Company is unoperative at present, but if the underwriting and distributing of American securities should become again attractive what is to prevent the Company becoming as active as ever?

If the Bank of Montreal is permitted to have such a partnership as that, what is to prevent that company in turn owning partnership interests in other companies, whose functions are still further removed, to quote the Bank Act from "such business generally as appertains to the business of banking."

Definition of The business of Banking.

It might be interesting at this point to quote from the 1907 edition by Dean Falconbridge, aforementioned.

book on tho Canadian Bank Act on pago 131 undor th "Businoss of Banking" ho givos a definition from Banks and Banking 4th ed., 1903 Sec.46 A as follows:-

> "The heart of the law of banking is that a bank has such powers as are requisite for the safe and convenient attainment of the purpose of its incorporation, the chief of these being to provide a place of safety in which the public may keep money and other valuables, and to lend its own money and that of others deposited with it (unless specially deposited) for a profit, and act as agent in the remission and collection of money. If it is by its organic law, a bank of issue, it has one more fundamental purpose, namely, to provide the public with a convenient currency in the shape of promissory notes intended to circulate as money."

You will note that the bank's function is to lend money and no one would seriously contend that taking a partnership interest in a business is lending money.

No new Banks for 33 years.

To demonstrate that it is becoming increasingly difficult to compete with the power and the influence of the banks in Canada, it seems a significant state of affairs, that in spite of the fact that there is probably no type of business in Canada which is so consistently profitable as is banking, and in spite of the tremendous financial and industrial growth of this country since the beginning of this Century, there has not been one bank start since 1900 which is still in business today (with the exception of the establishment of Barclay's Bank, owned by the Parent Bank in England). The Provincial Bank of Canada started in 1900 and the next youngest bank in existence in the country is the Imperial Bank of Canada, founded in 1875.

Number of Banks reduced 50% since 1919.

We do not think that the same can be said of one other business or industry. Certainly there have been untold millions thrown into the pulp and paper industry; the same is true of the lumber industry, the power industry, the fishing industry, the grain elevator business [illegible] mining industry. Every possible brokerage and finance business has had hundreds of new firms start and prosper, but when it comes to the banks, we find that there are actually only half as many banks today as there were in 1919. The Home Bank closed its doors and the Weyburn Security Bank was taken over as above mentioned. In 1919 The Bank of Nova Scotia amalgamated the Bank of Ottawa. In 1922 The Bank of Montreal absorbed the Merchants Bank of Canada. In 1924 The Canadian Bank of Commerce acquired the Bank of Hamilton and the Bank of d'Hochelaga (now Banque Canadienne Nationale) absorbed La Banque Nationale. In 1925 The Royal Bank merged the Union Bank of Canada and the Bank of Montreal acquired The Molson's Bank. In 1928 The Canadian Bank of Commerce acquired the Standard Bank of Canada.

Whatever the circumstances under which these various mergers and acquisitions took place it is obvious that, if the period of the next fourteen years relates the same story, we shall only have four or five banks left by that time. Such a state of affairs tends increasingly to concentrate in fewer hands power and influence both economic and political, which might easily become undesirable from the standpoint of the country as a whole.

Total Resources of Banks three billions.

When you consider that the total assets of the nine banks in Canada as they appear in the Financial Post Survey of Corporate Securities of Canada (1933) is $2,945,235,000 while the total capital, reserve and surplus, or in other words the shareholders investment in the Banks is only $310,945,519., you will see that by representi[illegible] the shareholders the directors control resources of n[illegible] the amount of money which those shareholders have invested. When in addition to that you find the directors of the banks appearing on the directorates of practically every company in Canada [illegible] importance, you get some idea of the tremendous [illegible] of those directors. For example, referring again to "The Survey of Corporate Securities." out of a record of the 250 Canadian companies with assets of over two million dollars, as shown in that book, one hundred and fifty one of them have bank directors on their directorates and the assets of those companies total over $5,500,000,000., those of the ninety nine companies having no bank directors only total less than $1,000,000,000.

Total Resources of Companies which Bank directors influence - 5½ billions.

It might be asked what bearing these statements have on the matter in hand, the point is to demonstrate [illegible], largely through the power given to the Bank Directors, through directing the wealth of the depositors in Canada, the influence of the same small group, and the total directors in our nine Canadian banks is only 158, extends to other resources totalling considerably more th

twice the resources of close to $3,000,000,000. of the nine banks. The figure of $5,500,000,000. is by no means the total of the assets of companies influenced by bank directors because the Trust Companies, insurance, mining and smaller oil companies as well as the hundreds of private companies have not been included in that figu

Influence of Directors.

To say that those directors have no particular influence on the policies of the companies would seem unreasonable, particularly where you find, as in the case of the Canadian Pacific Railway Company that 72% of the directors are also bank directors and in the caso of Consumers Gas, 60% are also Bank Directors. Brazili Traction has 50% and Shawinigan Water & Power 42%. We think it must be conceded that the influence is consider able. Also, there is the other feature of attempting tc restrict the activities of the banks in other businesse: It would be entirely futile to consider that anything effective had been accomplished if there is not going t be some control over the matter of interlocking directo:

Bank of Montreal and Royal Trust.

For instance, to say that there is such a close alliance between the Bank of Montreal and the Royal Trust Company that it would be quite a wasto of time for other trust companies to solicit business from the Bank of Montreal can, we think be easily demonstrated, The influence here, which is a matter of record, is tha of the twenty four directors of the Royal Trust Company, fourteen are also directors of the Bank of Montreal and there is only one director of any other bank on the boa

Royal Trust and Royal Agencies.

What other relationship there is, we have failed to discover as the statement to the shareholders of the Bank of Montreal does not reveal any investment in the Royal Trust Company. The same applies to the relation of the Royal Trust Company to the Royal Agencies, through which the Trust Company puts practically all its insurance business. The records of the Registrar of Companies in Victoria show that, of the six officers of the Royal Agencies, one is the General Manager, one is the Assistant General Manager and one is the Superintendent of Branches of the Royal Trust Co! You will recall the steps that were taken in 1923, as above stated, to arrest the movements of the Banks into the insurance business. You can readily see how such legislation is rendered ineffective by the development of interlocking directorates.

Widespread influence of Directors of Recent Development.

This tendency for Bank Directors to sit on the Boards of practically all the companies of any importance that are customers of the Bank only seems to have developed in the past fifteen years or so, and in the United States the re-action to such a development has been to have many important people, even in Banking circles, advocate for legislation prohibiting Bank Directors from serving on any other directorate, and while this may seem rather extreme, it is by no means so extreme as the limits to which the situation has developed in the other direction at the present time, with one

Bank Director appearing on the Boards of 26 of the two hundred and fifty companies examined, as before stated, and probably scores of other companies not included in the survey.

Difficult to compete with banks.

The seriousness from the standpoint of the legitimate investment house or broker, of having the banks invade the field of retailing securities need hardly be emphasized when it is considered the tremendous advantage which attaches to having direct contact with those who have funds to invest. When you add to that the fact that the banks can also practically dictate to borrowers when and at what price they shall sell their bonds, there can be no doubt of the potentiality for harm. To express it in the terms of a Professor of Economics in one of our Canadian Universities in commenting on the subject, in a letter in November, 1932, he writes -

University Professor's observation on banks in Bond business.

"The advantage of having a specialized group of business men whose function is to test the merits and judge the investment potentialities of certain types of financing, whether governmental or industrial, is that their expert knowledge and experience are invaluable alike to the public as to the enterprise itself. Banks have not always the men or the time to make an expert analysis of the whole investment field; their chief advantage is that they have direct contact with those who have funds to invest.

know them but because they have this unique opportunity that is no reason why they should exploit a trust which is built on entirely different considerations or arrogate to themselves an expert knowledge which they do not often possess. They are departing from their true function which is to hold the balance in the credit structure of industry as a whole and not to become directly interested in certain or particular financing jobs. If they could do this service as well or more cheaply than other people, then there would be a case for this extension of function but our experience of bank bond-selling gives us no assurance on either of these counts."

Unfair competition of banks.

When you couple with all these considerations the fact that the nature of the competition from the banks is often of the most unethical and demoralizing possible, such as the statement that the banks can handle the business at a lesser cost to the investor, or, in times of business disturbance, by the insinuation that it is unsafe to deal with the regular investment houses, it is extremely difficult to combat their encroachment on accounts that have for years dealt with the investment houses.

Complaints of unfair competition.

There have been innumerable complaints to our various organizations, of banks persuading investors to purchase or sell bonds through them after an investment house has sold a client on the idea and the client

is simply going to the bank to arrange tho banking details, such as gotting a chequo marked or gotting tho bonds from the safety deposit box. Another common cause of complaint is the expressed resentment on tho part of [illegible] at seeing cheques for large amounts in favour of investment houses going through customers' accounts. It requires no great imagination to visualize the scores of ways in which the banks can, and we are sorry to say do compete with investment houses.

Bank of Toronto Circular Letters.

As an example of the typo of soliciting of investment business by banks with which it is difficult to compete and which at the same time is a direct violation of the Bank Act according to the various judgments handed down in all the courts including the Privy Council, see cases quoted above, we are submitting herewith (Exhibits Nos. 21-22) two original circular letters on the Bank of Toronto letterhead and signed by two different branch managers in Vancouver of that Bank. The last two sentences read -

> "It is not possible for anyone to have all the necessary information available to enable him to make a wise decision when an investment is offered and wo invite you to make use of our Investment Department which is specially equippod to serve you in this connection. The Bank does not authorize its Managers to adviso the purchase of speculative stocks but you can at all times, through our Investmont

Department, obtain reliable information and advice dealing with high grade securities.

INVESTIGATE BEFORE YOU INVEST

Yours truly,

(Signed)

____

Manager.

That this was not just the idea of one Branch Manager is demonstrated by the fact that we have here two letters identical in every respect and mailed out [illegible]fferent branches, signed by different managers.

Do the Banks help the issuer of Bonds?

In conclusion let us examine the value to the borrowing institutions of having the Banks engaged in the business of selling securities. In the first place, one of the most bitter complaints by Bond houses is in regard to the banks' failure to attempt to make a secondary market for an issue once it has been originally distributed Where Bond Houses have joined Banks in distributing new issues, this very important part of the technique of properly placing issues is left to the Bond Houses. The confidence of the investing public is soon destroyed if, after buying a bond they are unable to sell it if they find it necessary to do so, and the advertising and energy required to find new buyers to relieve the original purchase [illegible] expense which the sponsoring group is expected to bear. Banks could not be expected to throw themselves into an operation of this kind for many reasons and the result is that either the issue is not supported, or else the brunt of the secondary market falls upon the bond house.

The handling of Dominion loan 1923.

The handling of the Dominion Government Loan of Two hundred million dollars in 1923 mentioned previously in this Paper, as not having included any banks in the selling agreement group, was one of the most satisfactory and generally successful pieces of financing which has ever been carried out in Canada, apart possibly from Victory or other Loans which had a patriotic appeal not pertaining to peace-time issues. The management of that issue was in the hands of the bond houses and we submit that Government and other loans will again be satisfactorily handled not only to the borrower but also to the investor when the banks return to their proper function of bankers and not bond dealers.

Banks [illegible] but not [illegible]lers.

The importance of the banks to the distribution of all large bond issues, cannot be denied, but the same applies to their assistance in the movement each year of Canada's grain crop. It would be entirely impossible to move our wheat each year without the support of the banks for which they receive proper remuneration but no one suggests that, in assisting in that important banking operation, it is necessary for the banks to engage in the business of selling grain and we most sincerely believe that the same applies to the distribution of Government or any other bond or stock issues. Let the Banks confine themselves to their functions under the Bank Act.

Respectfully submitted,

THE BRITISH COLUMBIA BOND DEALERS ASSOCIATION

per (Sgd.) G. Lyall Fraser.

B R I E F

submitted by

THE LETHBRIDGE BOARD OF TRADE

LETHBRIDGE, ALBERTA

TO
THE RIGHT HONOURABLE LORD MACMILLAN, CHAIRMAN,
AND MEMBERS OF THE ROYAL COMMISSION ON BANKING AND CURRENCY

May it please your lordship and gentlemen of the Commission.

The Lethbridge Board of Trade desire to take this opportunity of making certain representations to the Royal Commission having in mind the wide powers granted the Commission to investigate such matters as they may deem desirable to promote the revival of trade and enterprise and to facilitate Inter-Imperial and International co-operation for the purpose of raising the level of commodity prices and for the purpose of ensuring increased domestic employment and the stability of the economic, financial and social institutions of this country.

We recognize the valuable services rendered by the Canadian banks in financing the grain crops of western Canada thereby enabling our people to secure an immediate cash advance for their products. We also appreciate the confidence of our bank depositors in the security of our banking institutions and realize that to do anything that would tend to break down that confidence would be of serious consequence to our entire financial structure; and we realize further, that the confidence of the depositors is an asset of national life that must be maintained and is considered in any suggestions which we may have to offer.

There is evidence in this Province of the withdrawal of capital as a result of lost confidence through the enactment of legislation jeopardizing the security of the investor, and believe that an effort should be made to have the Provincial Governments rescind legislation that militates against the security of capital, thereby re- [illegible]ing in a large measure, security and confidence which [illegible] the foundations for credit and which have, in recent years, been almost completely ruined by Provincial legislation in Western Canada.

We are also cognizant with the danger of placing credit and investment facilities in the hands of political parties who happen to hold public office, as evidenced by the position of some of our Provincial Governments in Western Canada as a result of their management of their Sa[illegible]tificates Departments and Credit Societies.

We are also aware of the danger of long term contracts becoming frozen and weakening the whole financial structure of our banking institutions. It must be realized [illegible]sible to expect farmers and others doing a season- [illegible]es, to liquidate their obligations until crops are harvested, steers finished, etc., and a reasonable leeway for the marketing of such products. We submit, upon abundant evidence, that scores of reliable farmers and business men, bearing their own credit burden, but formerly contented citizens of the Dominion, have, through this lack of elasticity in their banking arrangement, been forced to make killing liquidation with the banks resulting in a terrible discontent that is seething for an outlet to strike

at what should be considered our sound, stable financial ... ernmental institutions. We have reason to believe ... any such instances that the Banks, as banks, are not primarily to blame, but the fault lies in the personal whims of what we call transient local managers. We recognize, as before stated, that curtailment of Western credit has taken place as a result of Provincial legislation effecting the stability of contracts and the safety of investments.

Having in mind all the matters referred to above, we respectfully submit for your consideration the following.

No. 1. ... there is an apparent anomaly in the Dominion Government ... gh the Finance Act, granting the banks authority to issue currency to the Government and thereby enabling the banks to obtain Dominion Government ... which has resulted in giving the banks a substantial ... thout rendering any services apart from the print... penses involved. We suggest that Bank Charters are a license granted by the people of Canada through their Government, and that on occasion of national financing the banks' services should be conscripted and this service rendered to the nation at cost.

No. 2. That we believe it is not in the interest of our banking institutions in allowing Bank Presidents and Directors to hold multiple directorships. As a result of this situation ... of banks have ... used to promote industrial enterpri... thout regard to actual production requirements but chiefly for private profits and thereby jeopardizing the safety of the bank's investments and ... ting an unfortunate condition through over-expansion.

<u>No. 3.</u> That banks have taken advantage of the public confidence to accumulate profits by creating credits beyond their paid-up capital. We hold bank profits from credits of this nature are in a different class than are the profits from their own invested capital and should be, in part at least, the property of the Government of Canada or used for the purpose of lowering interest rates to borrowers. It is interesting to note, that having regard for all the losses involved in the banking business, our banks have been able to build up enormous reserves, build palatial structures throughout the country and regularly pay large dividends. We do not believe this could have been done through the invested paid-up capital of the banks but has been made possible by this pyramiding of credit based solely on public confidence, of which the banks have been the chief beneficiaries. We believe the time has arrived when cheaper money must be made available to the public. There appears nothing unusual in this requirement particularly during a period of re-adjustment. It is a contribution the banks can well make, in view of the notorious fact that their earnings in the past have not been based on their own capital solely, but upon the extensive pyramiding possible through public confidence in the governmental supervision of our banking institutions. We have always endeavoured to control the issuance of dollar bills and are planning to control them still more strictly, but we have made no apparent effort to control the credits above referred to. The recent $35,000,000. advance secured by the Government from the banks not only created the possibility of an approximately $300,000,000. extension of

bank credit, when a[illegible] if the outlet, backed by adequate collateral is found for it. We believe the speculative boom of 1929 was largely financed through abuses of public [illegible]ence credits. We further believe that if any progre[illegible] [illegible]e made in mastering the forces of economic life, th[illegible] credits must come under some kind of control.

NO. 4. That consideration should be given to the exercising of more drastic control over the capitalization of Corporations selling stock to the public. The lack of proper supervision has resulted in the creating of corporation debts far in excess of their value. This lack of proper supervision has created a fertile field for professional promoters to build up Companies to unload on the public [illegible] price in excess of their valuation. We consider this [illegible] the [illegible] evils existing in the country and has contributed very much to our present difficulties. Over-capitalization, watered stock, need t[illegible] [illegible]ted drastically if we are to restore confidence with [illegible] [illegible]ng public. Unfortunately some of our banks, throug[illegible] [illegible] directorships, have much to do in the promotion [illegible] over-capitalized Companies. Attention need only be drawn [illegible] the heavily over-capitalized Pulp and Paper Companies in t[illegible] Dominion of Canada. Unfortunately bank officers have some[illegible]times allowed their names to be used by these Companies t[illegible] by attracting the public to invest without even investiga[illegible] the prospects of the Company itself. When the collapse comes the banks not only lose their money but the public confidence [illegible] those who direct them, is lost. We believe that there should be some provision in the Bank Act to separate bankers and bank directors, from Company promotion. As long as the banks can be used by Company promote[illegible]

for their own, the public is not going to have confiden in the banks and there is bound to be constant agitation fo radical control of them. The desirable thing, in our opini would be to get the various Provinces to agree upon Federal legislation that would effectively control capitalization and promotion of Companies. As the situation stands at present Provinces, as well as the Dominion, can incorporate Companies and we can never have effective control of capitalization until there is uniformity in our laws.

<u>No. 5.</u> There seems to be a general belief in Western Canada, that the New York money market exercises too much influence on exchange dealings between Canada and London. Australia and New Zealand banks make clearances direct with London, as do also Cape Town and Bombay. Canadian transactions with the Mother Country are all cleared through New York. Why cannot they be cleared direct? One of Canada's hopes is that there will be a large increase in our exports of beef, bacon and dairy products to the Old Country; this, with our wheat exports, [illegible] tremendous total of clearance. If imports from the Mother Country grow in proportion there should be some way that clearance of trade paper could be made direct.

<u>No. 6.</u> Recently the Provincial Government of Alberta paid 5.52% on a Million Dollars Refunding Loan. Western Cities are finding it difficult to borrow at any price. While this may indicate too heavy borrowing in the past, it would seem that the borrowing for Public Works, which constitute an asset to the whole Dominion, might well be concentrated in a Federal Bureau, which bureau would have some supervision over all Governmental borrowing,

Dominion, Provincial and Municipal. Certain Provinces and Cities are paying such a high figure for money being borrowed at the present time that it will constitute a drag on their finances for many years to come. In Alberta the Public Utilities Board act as a check on borrowing of the Towns and Cities but there is no check on the Provincial Government itself.

NO. 7. We believe that all banks operating in Western Canada should have Western officers to control ... credit, for Western officers would undoubtedly ... closer touch with local conditions and would maintain a more sympathetic attitude towards Westerners than could be expected from Eastern credit managers. Further, the frequent changes made in local bank managers, bringing in men with little experience in the locality to which they are assigned, tends to retard business development as these managers have to get acquainted before they can make arrangements for even temporary loans.

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We respectfully point out to The Commission, that in common with all the people of Canada, there is in Southern Alberta, an intense interest in the work upon which you are engaged. The people are hoping for the ... of your findings to bring benefits of individual and national importance. This is manifest in the desire of our business and commercial leaders rendering us every assistance in preparing our submissions.

The subheads following relating to particular industries have been prepared under the guidance of such leaders.

Milling Industry

[illegible]

We find that tho banks are domanding considerable moro securitios than thoy havo in tho past, beforo thoy will offoct loans. Liquid assots arc shown in businoss concorns of two to ono and yot banks aro domanding securitios outsidc of this oqual to lino of crodit grantod.

ADVANCES

Advances are made on grain from time to time equal to about 75% of the current value. This, in our opinion, is not sufficient [illegible] conducive to good business and should be extended to 85% where the parties have other securities available.

RATES

Interest rates have not generally been reduced to business man or individuals in the last twenty years although the banks havo had a reduction of from 3 to 2½%. No part of this has been passed on to the business man although their earning power has been considerably reduced. It is a known fact that banks havo maintained their earning power as in tho past.

COMPOUND INTEREST

Wo find that grain firms arc compollod to mako settlomont of interost oach month. Thoroforo, interost ratos, based on [illegible] rate, would exceed this rate by about a quarter to a half of 1%.

EXCHANGE RATES

We consider these excessive as there have been no material reductions during the last twenty years.

DRAFTS

Drafts sent out for collections are frequently returned with the notation "No response to notice", when as a matter of fact few, if any, drafts are ever presented. Banks rely on the simple method of sending out notices by mail and if not responded to, they return them to those who issued the draft with the notation "no response" when as a matter of fact, a little more effort on the part of the banks would bring better results.

DISCOUNTS

Ban[illegible] charging about one-quarter of 1% on documents discount[illegible]. [illegible] think that this is excessive.

INDIVIDUAL LOANS

At the present time banks have become so tight in their dealings with individuals that few men can obtain [illegible]odations. This seriously retards business arrange[illegible], especially during the harvest season when farmers cannot even obtain binder twine to harvest their crops. Corporations have been called upon to step in and make advances that ordinarily should have been handled by ban[illegible]

DEMAND LOANS

Grain firms are frequently, if not as a general ru[illegible] required to give demand loans. This puts individuals and business men at the mercy of local managers without any recourse [illegible] is hard to get in touch with the superior[illegible] in banking [illegible].

CAPITAL EXPEND[illegible]

Money received on capital accounts and placed in [illegible] bank loses its identity and when it becomes necessary to [illegible]end money for capital improvement, banks frequently h[illegible] [illegible]allowing this expenditure. That the practice of d[illegible]

ing interest from the face value of loans when made is unjust, interest is not earned until due, and should not be collected from the borrower at beginning of loan.

On the whole, we recommend a more liberal allowance by banks to individuals and firms, either through the banks themselves [illegible] the Government so that worthy enterprises might be enc[illegible].

[illegible] INDUSTRY

The Coal Mining Industry of Alberta has been an important factor in the development of the Province, [illegible] second in capital investment and labour employment, [illegible] Agriculture only. Today, however, it would be difficult to point to any mining enterprise in the Province that is making a success under present conditions, and even more difficult to point to any satisfied group of mining employees.

Within the past four years the output of Alberta mines has dropped fully 50%, and with the huge capital investments standing idle and employees not getting sufficient days work p[illegible] to earn a livelihood, the discontent that reigns [illegible].

The positi[illegible] have taken in protecting themselves has added greatly to aggravate the distressing conditions that prevail. Where assistance has been granted [illegible] to a customer, it is quite common for the bank to [illegible] the customer's assets, even to ten times the value [illegible] the assistance given, and in this way prevent the customer from meeting his obligations to the trade. In this way the banks have curtailed business as they not only hold the customer's assets, but grab every dollar that is being

paid to his account, which proves the banks are not operated for the benefit of Canada, but for the interest they can earn their stock-holders.

It is a peculiar fact that the part of Canada that is most highly industrialized is the part in which no coal is produced, and it is with envy all coal producers look to this "acute fuel Zone" as it is sometimes named. Around seventeen millions tons of coal have to be imported annually to supply the needs of Ontario and Quebec, which, due to the proximity to the United States coal fields, has been mostly supplied from that source.

The Dominion Government, recognizing the extreme difficulties with which the coal industry is faced, has endeavoured from time to time to assist by granting subventions and special freight rates to points in this "Acute Fuel Zone".

For various reasons the advantages offered by the Dominion Government have to a certain extent been annulled until today the industry in Alberta is in a worse plight than ever.

During the past three years a fair amount of Alberta coal was marketed in Ontario, and to further this the Dominion Government have again reduced the special freight rate, but owing to unsuitable coals being sent, the reduction in price by United States Operators, and the discriminating threats of United States coal salesmen, the demand for Alberta coal is again gradually disappearing.

All these obstacles could well be overcome, and prosperity brought to the Coal Industry, which in turn would reflect throughout the entire Dominion.

A competent party should be put in charge to name the coals that are suitable. Many, especially domestic coals, have too high moisture content and cannot be shipped such great distances, but there are others quite suitable. Residents of Western Canada can be most comfortably housed under the most extreme conditions with Alberta coal.

It is reported that United States coal salesmen have threatened to cut off the supply of American coal from any dealer handling Alberta Coal. American coal has previously always meant the dealers' bread and butter, so no one can blame the dealer for refusing to handle more Alberta coal under such conditions.

To eliminate this, and to counteract all U.S. Operators' price-cutting methods, we suggest that a quota system be devised whereby it would become incumbent upon the dealer to handle a certain percentage of Alberta coal. Let the percentage be small, say 5% the first year, and gradually increase this percentage each year until the most economical point is reached. By making this compulsory the U.S. salesmen's threat is eliminated. It would be useless to extend price cutting, and the gradual change would not disrupt existing conditions. Ontario residents would gradually get used to heating with Western coals, and in a few years would become thoroughly satisfied.

The quota system has operated to advantage in other countries, and there is no reason why it can't be successfully operated in Canada. European countries have used it in protecting their home wheat supply, and have changed it from time to time to suit prevailing conditions.

The effect of placing sufficient Alberta coal on the Ontario market would not only be to the benefit of the Coal

Industry. The Railways would be sét to work, employees would be in a position to purchase farm produce, and money that is at present handed out in relief would not be necessary.

Mining costs have not been reduced with the general trend of the cost of living, due to the limited number of days worked in the year with increased production general costs would naturally be reduced so that the savings effected could be passed on to minimize the burden of tran porting the coal.

We recognize the distance from Alberta to the "Acut Fuel Zone" is great, and the problem of successfully transporting coal considered impossible, but items that were considered impossible a year ago are today quite feasible. It is quite evident something must be done, so we respectfully submit for your consideration the ideas as outlined above.

SUGAR BEETS INDUSTRY

The Provincial laws of Alberta forbid a lien on a growing crop resulting in the banks giving practically nc assistance in the production of sugar beets. The financin the crop is done mainly through Provincial Sugar Beet Co-operative Credit Societies.

In the face of universal demand that primary producers receive greater compensation for soil products, it seems to us that a tax which curtails the use by domestic consumers of such home grown products should be immediately adjusted.

Our information is, that the recent 2¢ per pound tax on sugar has resulted in curtailment of its use of from 10 to 15%.

We suggest that Canadian producers or manufacturers ... sugar should receive a draw back of at least 1½ ... pound of this tax. We believe that such adjustment will be immediately passed to the Canadian grower of sugar beets and we submit is consideration most essential to an industry that is just establishing itself in this Province.

We submit that the curtailment of the use of sugar touches other producers (fruit growers) and manufacturers (glassware) in Canada without effecting the cost of sugar to the consumer.

WHEAT GROWING

Wheat is the most important primary produce of this Dominion and particularly of Western Canada; its production and export have contributed in a large measure to the prosperity and wealth of the Eastern industrial ... this country. We submit that Canada as a whole can... prosperous with any prolonged curtailment of wheat production, or with the selling of this product at a price below cost of production.

A solution for its marketing cannot be obtained through local agencies - that constant effort for its wider sale must be the continued objective of the Dominion Government. While we believe the Government is extending some effort in this particular, we do most earnestly urge its continued application to the task, touching as it does the whole basis of our future welfare.

Eastern Canadian industrialists cannot expect to find a market in Western Canada for their products under the present prevailing conditions and it is of vital im-... to the Eastern manufacturers that they extend

sympathetic and earnest consideration to the solution of this important problem.

While we are aware of what is being attempted by the Dominion Government and need not add our local views of how it might be advanced, we must however, touch on a purely local situation, that being the fact that the Government have expended approximately $1,000,000 in completion of an Internal Storage Elevator at Lethbridge, and no use whatsoever has been made of it since its erection two years ago. Local thought is that it could at least be leased to, and made use of by one of the larger line grain buying concerns operating in this district.

LIVESTOCK INDUSTRY

Looking over the field of agriculture generally it does appear that Canada has now come to the time when a change in present planning to agriculture should be adopted. Our Government, the financial interests have played an important part of late in curtailing the wheat averages in Canada without giving any consideration to the improvement of other lines of agriculture, particularly livestock, the replacement of same. Livestock in Western Canada has played an important part in the past forty years. We now find, however, that the livestock industry generally is in a most deplorable condition, and ranchers (cattle and sheep) particularly, are faced with disaster unless some assistance is rendered in the way of more finances and wider markets, for this line of product.

During the past three years efforts have been put forth in Canada to supply Great Britain with livestock, finished in such a way as to command the attention of the

British buyer. The results obtained therefrom have been quite satisfactory, although the volume of livestock finished has not been great enough to take care of the surplus existing in the Dominion of Canada. This is due to the fact that producers find their financial position is such that they are unable to keep up the standard of their breeding stock, and further finish the stock to where it will meet the requirements of the British market.

One of the great needs of the livestock producer is a well defined organization to handle their products, one which would be in contact with banks and other financial interests. At the present time we have no practical system of marketing livestock. It is true that we have livestock market terminals under the supervision of our Dominion Government. In contrast tothis, however, we have a great combine between packers and buyers of livestock products, and this appears to completely control the terminal markets, leaving producers in a very helpless situation.

The cattle industry, and the sheep industry in Western Canada today faces disaster. Great Britain is asking for Canadian grain fed beef, but with the shortage of pasture generally this year, both in Eastern and Western Canada, coupled with shortage of money, and with a limited amount of credit being allotted by the banks, there is every possibility that thousands of Canadian cattle will be sacrificed on the Canadian markets during the next year. These cattle should be in the feed lots and finished for export to Great Britain.

The importance of feeding livestock in Canada should not be overlooked, and we should like to point out that in Southern Alberta last year some 2000 head of cattle were

finished by being fed on wheat. It is safe to estimate that these cattle consumed 2000 pounds of wheat per head, making an approximate total of 200 tons of wheat turned into beef, instead of being placed on an over supplied market.

The value of these cattle, going to the feed lots, could not be placed at more than $20.00 each, while their value when [illegible] and sold averaged $40.00 per head, thereby incr[illegible] amount of wealth distributed in the districts where the cattle were fed, by 100%.

There should be no doubt as to the security in the financing of livestock thus being finished, under a proper [illegible]ed system, and every encouragement should be [illegible] our Government and banks to develop this industry, and encourage a higher standard of quality, a quality that will command the attention of the British buyer.

Owing to the fact that markets to the south of this country are shut off by high tariffs we must look to an export market in Great Britain, and can only supply that market when we are in a position to meet their demands.

Great efforts have been put forth by our Governments and livestock interests generally in regard to the hog industry [illegible] the past two years, and we would say that very satisfac[illegible] results have been achieved in connection with hogs, and we believe that the same effort should be put forth as regards cattle and sheep.

. . . .

In conclusion, we do not find it possible to make any definite recommendation as to the kind or nature of operation of a Central Bank for Canada. Public opinion

in this section of Canada has not become definitely fixe in this regard, except in so far as there appears to be very definite desire that Canada have such an institutio There appears also to be widespread respect for the personnel of the Commission and faith that its Members are capable and will be sincere in bringing in a finding in this regard that will be in the best interests of Canada as a nation in her own future development and enable Canada to take her proper position without handicap in th world scheme of finance.

Holding these views and repeating our confidence in the Commission, our submissions are forwarded in the hope of assisting in some measure the work of the Commission.

Farm and Ranch Review.

Calgary, Alberta,
30th August, 1933.

TheSecretary,
Royal Commission on Banking,
Ottawa, Ontario.

Sir:

I submit the following brief observations for the consideration of the Royal Commission on Banking?

THE Function of Credit

It is a curious fact, that the most popular political appeal to the masses in Canada is one based on the extension of banking credit through socialization of credit facilities. Detail is never given. This is at the foundation of the present radical, agricultural, politcal thought. The farmer is being taught, that the element of free credit is the cornerstone of his activities. My impression is, that there is not an adequate comprehension of the proper function of short-term credit on the part of the vast majority of Canadian people. May I suggest that constructive comment in the report of your commission, on the general question of the employment of short-term credit in business and agriculture might have a most salutary effect at this time.

In early pioneering days there were no banks available to lend money to farmers. Farm products were much lower in prices than they are even now, but farmers were generally more prosperous. There were small store bills and occasional debts to implement houses for the simple and inexpensive wagon or plough purchased. Those were liquidated as produce was sold. The individual farm debt on the present grand scale was unknown.

Nothing has occurred during the forty odd years of my

... ation in the West, to necessitate any substantial de... ure from the simpler and safer financing of the early days, still successfully practiced by thousands of Western farmer... From a business standpoint, there never can be any adequate basis for short-term farm borrowing, except limited amounts immediately prior to an assured harvest, or on the security of marketable live stock, for the simple reason, that the farmer cannot depend on a crop, and, if he is lucky in that respect, he cannot depend on a paying price for his product. To borrow substantially under such circumstances, is to gamble on a very uncertain future.

Is credit, as a matter of fact, an indispensable adjunct to business success? Three times in my business li... I have lived through severe depressions. On all occasions ... pyramiding of debt was a major contributory cause, and prevented early readjustment. My long range observation is, that aside from monopolistic business ventures, few concerns can borrow at 7 and 8% interest over the years and make it pay. No farmer can.

We face today agricultural, transportation, business and industrial over-extension on every side, also a vast volume of frozen loans. Our equipment could easily handle twice the volume of business normally available. This is th... direct result of free credit, which permits of the diversion of business profits into superfluous capital investment by ambitious executives. Established enterprise must also face cut-throat competition, entering an already over-crowded field on the proverbial "shoe-string", depending on credit to function.

Installment Sales.

My conviction is, that our present state of stress is enormously aggravated by the consequences of "strong arm"

instalment selling in the period of prosperity, when, if ever, we should have been able to pay for indispensable equipment as we went. I look upon installment debt, with a nominal, initial payment, as the most dangerous form of credit extension. Provincial legislation casting obstacles in the way of collecting any debt for household equipment and machinery, exceeding fifty per cent of the purchase price, would be fully justified and would lead to more conservative merchandising methods. My information is, that the reckless system of agricultural machinery credit in Canada prevails in no other Dominion and certainly not in Great Britain. It is an unmitigated evil.

Parity of Prices.

Our economy is, I assume, based on the sale of the products of our labour, converted into the medium of exchange. If the price structure, at any time, is such, that large groups of the community cannot exchange their labour equitably for that of other groups, business inactivity must apparently occur. The smaller groups, not being able to sell their labour, then become unemployed. This adds to the business depression, and creates the phenomenon of "starvation amidst plenty."

This has actually been the position of export agriculture the world over for several years. Agriculture, directly employing two-thirds of all the people on earth, must obviously be the controlling factor in world business activity, in both importing and exporting countries. When agriculture is prosperous, owing to a favourable price level or to bountiful crops, or to both, the country is prosperous. Under the reverse circumstances, as at present

in Canada, we have depression, until the agricultural price level is properly adjusted to the general commodity price level, so as to restore agricultural purchasing power. This, therefore, seems to be the fundamental problem facing practically all countries, and particularly an agricultural export country such as Canada.

Debt Liquidating Price Level.

But attaining mere parity of purchasing power as between occupational groups, is not a complete remedy, when depression is of long standing. The liquidation of debts must also be considered. Since the war, and up to recent years, agricultural credit has been abused. Liabilities were assumed on the optimistic expectation that agricultural prices would remain high. When they were cut in two, and in many cases in three, the margin for debt payment disappeared completely. The disturbing fact is, that present debts cannot be paid at present low agricultural prices. Even if agricultural parity of purchasing power is restored, unless the price level is higher than at present, it will not solve the debt situation.

The only methods of increasing the price level are apparently either (a) through monetary inflation, or (b) to control production of agricultural staples entering the world's market, so as to strengthen world food and fibre prices, which presently would be reflected in increased agricultural purchasing power, leading to a higher general price level.

A higher price level forced by monetary inflation, however, can be neither controlled nor maintained against the factor of agricultural over-production, demoraliz ing

world food and fiber prices and finally depressing the general commodity price level. It would, therefore, appear, that controlled production of leading agricultural staples is a condition precedent to increased business activity, under any scheme of monetary manipulation.

Long-term Credit.

As there is not, apparently, any proper basis for rural short term borrowing, the farmer's credit operations should be largely confined to long-term, real estate borrowing. Unfortunately, mortgage money has not been available in the West for several years, largely, it is claimed, owing to various provincial legislative measures, designed to protect the borrower, which affect the security, and to provisions making certain substantial liabilities, such as hail insurance and weed destruction, a prior claim on the land.

The Canadian Farm Loan Board, operating in cooperation with the provinces, has only substituted to a very small extent, owing to an ultra-conservative loaning policy, which, however, cannot be regarded as unjustifiable at the present time. The existing long-term credit situation is most unsatisfactory, but it is difficult to say how it can be mended, except by a more liberal Farm Loan Board policy, which would, naturally involve very large risk. Perhaps, under the circumstances, such a risk is justified.

Interest Charges.

The burden of high interest charges, pyramiding the debt through non-payment and compounding, is the most serious disability the farmer now labours under. Overdue payments

on farm machinery liability in the West, carry a ten per cen interest charge. The volume of these debts take second place only to farm mortgage indebtedness. In Australia and New Zealand the problem was successfully met by reducing by law the rate of interest on mortgages, cumulativ debenture stock, rent of land and payments on land purchase agreements by 20 to 22 per cent. It seems to have worked out very well.

In Denmark the present proposal is to levy a state tax of about 50% on interest coupons on land mortgages debentures, and, in some way, not yet determined, returning the amount to the farmers, thus cutting his interest bill in two. In Germany land mortgage liability, entered into prior to July, 1931, has the standard 6½ per cent interest reduced to 4 and 4½%. In the United States the Federal Land Banks, operated by the government, arrange the refunding of existing mortgages on a 5 per cent basis and amortization of principal over 72 years. Fabulous sums are involved in these operations, quite beyond possibility in Canada. No agricultural country has been able to evade this issue.

Compulsory Reduction.

Optimistic observers place their reliance on voluntary debt and interest compromise. This, unfortunately, seldom happens until the debtor is irrevocably bankrupt. Relief then generally comes too late. Human nature is such, that it seldom relinquishes a claim for money until it is obvious it cannot be collected. If the direct methods of the ancient Greeks and Romans of peremptorily reducing debts, cannot be resorted to today, the incident of retroactive interest adjustment undoubtedly can and should

Banks, and many other financial institutions, have been highly prosperous during the present depression, to the extent, at least, of fairly maintaining normal dividend payments. This rankles in the minds of the public. If a reduction of interest charges to borrowers resulted in temporary reduced earnings and dividends, it would do much to popularize these institutions. The interest to depositors could be reduced to one per cent. If withdrawals of savings resulted in spending, it would help the business situation. If they were otherwise invested, the amount would find its way back to the banks.

Trade and Industry.

May I solicit your special attention to the following observations: With agricultural purchasing power substantially reduced, urban trade necessarily dwindles rapidly Even with the curtailed trade, however, industry and business might often avoid bankruptcy, if a reasonable (not a high) price level could be maintained. But cut-throat competition invariably demoralizes prices completely under such circumstances, unless it is possible to form voluntary price protecting organizations, which is very seldom the case. This situation is, as I see it, the greatest menace to industry and business today, and unless relief is forthcoming quickly, thousands of legitimate concerns, many of long standing, must go to the wall.

In early days the various Guilds undertook the regulation of prices and competition and exercised close and autocratic supervision over the quality of goods offered to the public by their members. Business was rigidly restricted and regulated in the interest of merchant, producer, and consumer. From the time of Henry VII, this

responsibility was assumed by the crown in England, France and Spain. Trade thus controlled prospered under both regi

After the French revolution, the <u>laissez faire</u> policy was adopted everywhere, leaving control entirely to the regulating influence of the law of supply and demand, from time to time buttressed by legislation, designed to prevent the more glaring cases of fraud, against the consumer, such as "pure food" acts, etc. This uncurbed, competition naturally led to a state of anarchy in business, particularly in times of stress.

The laissez faire policy might conceivably have work satisfactorily if consistently applied. But governments presently invented a system of class protection by import tariff. Professions and labour organized to secure special advantages in respect to fees and wages and so forth. This obstructed the action of supply and demand regulati upon prices. We now have a hybrid system under which certain classes are largely immune from price changes, while the export farmer must meet fierce competition in the world's market, which also governs his domestic prices. It is clear, that such a lop-sided economy canno in the long run, prevail.

May I suggest, that President Roosevelt's much advertised industrial control plan is merely a return to the Guild System of business discipline. Also, that, by accident or design, he has probably stumbled on the only feasible way out of the present suicidal and destructive system of uncontrolled competition, leading, as it admitt has, to a low standard of business morality and ethics, and to long periods of the "profitless prosperity", which almost every competitive Canadian industry has

experienced during the past eight or nine years. In spite its obvious complexities, this plan is not entirely experimental, and is apparently worthy of serious consideration.

Protection of Savings.

We are told that our banks do not advance money for capital expenditure. They have advanced millions to acquir control of, and to "re-finance" established industries, with a few years of spectacular boom profits behind them, in order that small groups of buccaneers might over-capitalize them on the strength of this artificial earnir power, and thus filch the people's savings, the sacredness of which bank executives, very properly, never cease to impress upon the public. Scores of such shady transactions have been negotiated in recent years, resulti in the loss to small investors of many millions and with our conservative, chartered banks, competing for the privilege of supplying the funds to swing these questional deals.

If our banks actually regarded the Massey-Harris reorganization (to mention only one case of many), as sound business, worthy of banking support, my regard for their judgment would be severely discounted. I very much fear, that the determining factor to the banks was no the nature of the transaction, but the knowledge that the bank was reasonably safe in these profitable advances, because It was felt, that the deals could be successfully put over on a gullible public by the promoters.

Your commission would perform a splendid public service, if it advised a new Federal company law with pro safeguards against exploiting the small investor, and new

provisions in [illegible] Bank Act prohibiting entirely the use of bank fun[illegible]nce the purchase of control of going concerns for [illegible]rpose of re-sale, which is essentially a capital operation.

Such legislation has been passed in Italy, and is n[illegible] drafted in the United States. The objection that it [illegible]per legitimate business promotion, should not be re[illegible] as a deterrent at this time, because Canadian industry and trade is now so frightfully over-expanded, that little harm would be done if an artificial brake were applied for the next ten years, when the special safeguarding provisions of the law could, if necessary, be reconsidered.

Conclusion.

Summing up my observations on banking policy in Canada, may I say, that I have been a party to large and small borrowin[illegible] from several [illegible]r many years, and am at present. My treatment has been [illegible] enough.

Banks in Canada are commercial institutions, operated to make the largest possible profits. Service to the public is, very properly, purely incidental. Banks enjoy valuable [illegible]. These, however, are regarded as a public contri[illegible]n towards safety and not as conferring any obligation to assume risks in public interest.

As to the general policy of our banks, past and present, one concludes:

(1) Banks have in the past been entirely too free in their loaning policies to governments, municipalities and "big" business generally and are, therefore, largely responsible for undue business expansion and heavy taxation.

(2) They [illegible] supporting "big" business very generously today, to protect their own risky and large investments.

There is apparently no other alternative.

(3) They are highly conservative with agriculture and "small" business, with temporary frozen loans, well secured and of limited dimensions , but with ample and sound capital assets, efficient in management, and a good earning record behind them, who urgently need very limited financial support to carry them over the depression. Hundreds of that type of concerns long established, with current assets now depleted by years of struggle under ruthless depression competition, must apparently go to the wall, presently, with disastrous consequences, for want of very modest assistance to carry on through what we [illegible] the closing months of the present disastrous period [illegible]ll be a distinct national loss.

(4) The typical comment of the "man in the street", that "one is quite safe if only one owes the bank enough", sums up the situation fairly correctly. That attitude may reflect an unavoidable policy on the part of the banks, but it obstructs the law of "survival of the fittest". Those who owe the most are generally not the fittest. I cannot suggest the remedy, if remedy there is. I trust, the Commission may.

Respectfully submitted,

(Signed) Chas. W. Peterson,

Editor,
"Farm & Ranch Review.

MEMORANDUM SUBMITTED BY:

J. A. BARRETTE, ESQ. M.P. (for Berthier, Maskinonge, P.Que.

C'est dans l'intérêt que je porte à la classe agricole et aux petits épargnistes que je comparais devant cet honorable comité.

Etant cultivateur, je voudrais que la classe que je représente au parlement de mon pays soit traitée avec équité par les banques canadiennes. Je voudrais en plus qu'on donnât plus de crédit aux fermiers canadiens qu'ils en jouissent actuellement. Ils devraient être traités de la même manière que l'on traite le financier d'entreprises hasardeuses.

Dans le cours de la session dernière, j'ai proposé à la Chambre, lors du débat du budget, l'imposition d'une taxe unique; celle sur les opérations bancaires. Pour donner plus amples explications, je vous soumets une copie du discours que je prononçais à la Chambre lors du débat. Si le parlement n'a pas fait écho à ma voix, j'ai cru que les banquiers prisaient mal mon projet. Il est évident que la taxe unique atteint surtout le riche, le grand industriel et le financier. La classe agricole et le pauvre sont soulagés par ce projet.

La suggestion faite devait rapporter au-dessus de $300,000,000 au Trésor public. Elle devait en plus éviter en frais de perception une somme de huit à dix millions par année. Après la clôture du débat, j'ai dû recevoir environ trois mille lettres d'approbation et de félicitations de ce projet venant du clergé, de la magistrature, de l'industrie et de la finance. Je dois faire remarquer au comité que ce projet devait

remplacer toutes les autres taxes imposées aux contribuables, à l'exclusion des taxes de douane et des taxes [illegible]re. Ceci à mon sens devait rendre le projet populaire et évitait beaucoup de complications.

Le cultivateur et le petit bourgeois de campagne se servent des banques pour y mettre leurs épargnes en sûreté. A quoi servent généralement ces épargnes venant de la campagne? Les banquiers drainent l'argent du cultivateur et du petit épargnant et s'en servent pour faire bénéficier les grands manufacturiers, les industriels, les financiers; c'est-à-dire que l'épargne rurale sert au bénéfice des spéculateurs des grands centre Il leur faut faire de l'argent vite. Tandis que le crédit des fermiers est sûr mais ne donne aucun grand bénéfice aux banquiers; c'est-à- dire qu'ils y vont lentement mais sûrement.

Je vous ferais remarquer que le fermier québecois ne peut emprunter sur les produits de la ferme. Si un cultivateur se présent au guichet de la banque et veut avoir $50 ou $100 tout de suite, on lui demande un bilan de ses affaires et on lui répond: "Ces petits prêts ne nous intéressent pas et notre bureau chef nous interdit ces avances". Alors pourquoi l'argent des fermiers qui est ainsi à l'épargne ne servirait-il pas uniquement aux fermiers? Et que l'argent venant des centres ruraux ne devraient servir également qu'à protéger nos fermiers ou les marchands ruraux. Je voudrais donc que l'épargne rurale ne serve en aucune façon à favoriser les courtiers et les spéculateurs urbains.

On devrait également limiter les dividendes à cinq pour cent à être payés aux actionnaires. Le salaire des officiers et du président de chaque banque ne devrait pas être supérieur à celui du Premier Ministre du Canada. On devrait aussi limiter à un salaire minimum de mille doll[illegible] celui des c[illegible].

Un comité [illegible] surveillance devrait être institué pour contrôler le coulage des profits des banques. Exemple, une banque décide de construire une succursale au coût de $500.000; vous constatez qu'il n'apparaît [illegible] que pour $25,000. Où est allée la différence? L[illegible] [illegible]its de la banque devraient être divisés équitablement entre les actionnaires et les déposants. De cette façon, le systéme que j'ai proposé lors de la discussion du budget assurerait l'augmentation des dépôts et des revenus suffisants pour équilibrer le budget du pays.

TRANSLATION:

It is because of the interest which I have in the Agricultural class and small depositors that I appear before this honourable committee.

Being a farmer, I would like to see the class which I represent in the Parliament of Canada treated with equity by theCanadian banks. I would also desire that more credit be extended to Canadian farmers than at [illegible]; they should be accorded the same treatment as that given the financier of hazardous enterprises.

In the course of last Session, I proposed to the House, in the debate on the budget, the levying of a single tax; that on banking operations. In further explanation, I submit copy of a speech which I made

in the House, at the time of the debate. If Parliament did not give heed to my voice I thought that the banks did not look favourably upon my project. It is evident that a single tax reaches particularly the rich man, the big industrialist and the financier. The Agricultural ... and the poor man would be relieved by my project.

The suggestion made would have brought in over $300,000,000 to the public Treasury. It would further eliminate collection costs amounting to eight or ten millio a year. At the close of the debate, I must have received three thousand letters of approval and of congratulations regarding the project; such letters coming from the clergy, the magistracy, industry and finance. I would call attention to the fact that the project in question would replace all other taxes levied on the taxpayer, with exception of customs and excise taxes. This, to my mind, should render the project popular and prevent many complications.

The farmer and the country gentleman use the banks for the purpose of depositing their savings in security. ... purpose do these savings from the country serve? The bankers drain the money which they receive from the farmer and the small depositor and use it for the benefit of the big manufacturers, industrialists and financiers; that is to say, rural savings are applied to the benefit of speculators in the big centers. They must make money quickly, whereas the farmers' credit is sure but does not bring in any great return to the bankers, that is to say, they go slowly but surely.

I would have you note that the Quebec farmer cannot borrow on the produce of his farm. If a farmer presents

himself at the bank and asks for $50 or $100 as an immediate loan, he is told: "These small loans do not [illegible] us and our head office forbids us to make these [illegible] Why then should the farmers' money, which is in savings, not be utilised solely for the benefit of the farmers? And why should not the money coming from rural centers be likewise employed to protect the farmers or the rural merchants? Therefore, it is my wish that rural savings be not employed in any way to favour brokers and city speculators.

Dividends paid to shareholders should also be limited to 5%. The salary of the officials and president of each bank should not [illegible] higher than that of the Prime Minister of Canada. A minimum salary of $1000 a year should also be set for that of the clerks.

A supervising committee should be established to [illegible] bank profit leakage. For example, a bank decides to [illegible] branch office at a cost of $500,000; you will note that but [illegible],000 appears on the balance-sheet. What has become of the difference? Bank profits should be divided equitably between the shareholders and the depositors. In this manner the system which I proposed, at the time of the debate upon the budget, would ensure an increase in deposits and revenue sufficient to balance the country's budget.

SUPPLEMENTARY MEMORANDUM - INVESTMENT BANKERS' ASSOCIATION OF CANADA -

September 19, 1933.

The Investment Bankers' Association have had befor them the brief submitted on behalf of the Chartered Banks respecting [illegible]sition of the Banks in the business of underwriting [illegible]ributing securities. It is the desir of the Association [illegible] discuss as briefly as possiblo some of tho points raised in the statement of the Chartored Ban' and to discuss also a commont mado by one of the roprosent- [illegible] of the Chartered Banks in the hearings at Ottawa as [illegible]ed in the press of September 16th.

In the Banks' brief several paragraphs are devotec to proving that there is a legal basis for the banks engaging in the business of underwriting and distributing securities. There is a considerable difference of opinion regarding the legal right of the Banks to deal in securiti except for their own account. What was stressed, however, by the Association was that the extension of the activitic of the Banks in this particular field during the past decado ropr[illegible]ed a much widor [illegible]rpretation of tho pow given to thom in th[illegible] Bank Act to "deal in" securities than formorly obtained, and that such extension of tho banks' activities was dofinitcly not in tho public intorest.

That this incursion of tho Banks into tho fiold of [illegible]ity undorwriting and distribution on the present scale in Canada is a new development since the war is obvious from a reference to the following two items:

(1) As mentioned in our brief, the protest against this new development was a matter of informal negotiation betw

tee of the Association and certain of the banks. We quote below a letter received by the Chairman of this committee of the Association from the General Manager of the Canadian Bank of Commerce.-

Toronto, 1923.

Dear Mr. Ward:

With reference to the various conversations which we have had during the past few months concerning the bond business carried on by Canadian Banks through bond departments established for that purpose, I understand that a number of the bond houses have felt that the competition from the banks through these departments might develop into a serious matter for them, and having this in mind appointed a committee, of which you are Chairman, to take the whole matter up with the banks with a view to having them retire from their activities in this field.

You have put this matter squarely up to me as General Manager of the Canadian Bank of Commerce and so far as this Bank is concerned I now beg to state our position.

As you are aware, the War financing of the Dominion Government required the Banks to act as agents in the placing of the Victory Loans, and as a result many thousands of the banks' clients became bondholders, this extending to every one of our 500 branches. In the course of time hundreds of our clients wished to dispose of their securities or invest further sums in bonds (having for the first time in their lives become bondholders), and it was only natural that they should appeal to their bankers for assistance and advice in selling and purchasing securities. These activities became so great that the Bank was forced

gregate the business and created a department for th
purpose. In the nature of the case our operations in the bond field are confined largely to trading, which must necessarily broaden the general market for all bonds and therefore operate to the advantage of the bond houses. We have no salesmen on the road selling securities, and it is not in our interest as holders of deposits to actively canvass our clients to invest their moneys in bonds except where they express a preference or desire to do so.

It is not our intention to go into competition with the bond houses in bidding for new issues of securities, nor have we any present intention of inducing governments or municipalities for whom we act as bankers to dispose of their securities to this institution. We are bankers now of certain of the provinces and many municipalities, and the securities of such provinces and municipalities always go to the market in the ordinary way by either competitive bids or private negotiations as they may see fit. We wish it, however, to be understood that on occasions we participate in syndicates composed of bond houses for the purpose of bidding for new issues of securities.

I gather from what you say that some of the bond houses are fearful lest information concerning their clients might get into the hands of the bond departments of the banks and be used to the disadvantage of the bond houses. All I can say is that we have issued strict instructions that under no circumstances must any such information be given to or sought by our bond department or made use of by them in connection with their operations.

For the reasons above given it is not practicable

in my view for this Bank to do away with its Bond Department. I am satisfied that the net results of the Bank's operations in this connection will be all to the good as the bond dealers are concerned.

Yours faithfully,

"JOHN AIRD" General Manager.

(2) Another evidence of the recent character of the bank extension into the securities field is found in the following quotation from the remarks of the General Manager of the Bank of Montreal at the annual meeting held December 6, 1926:

> " Let me mention some comparatively <u>new</u> special services we now render to our clients and the public at large ....
> We have also a department which specializes in securities, maintaining contact at all times with the markets in this country and abroad. The services of this department are at the disposal of our clients through medium of any of our offices."

May we refer now to the discussion of the war financing appearing in the Bankers' brief? A reference is made to subscriptions by the Banks to a part of the War Loans. The Association's brief contains no criticism of a purchase by the Banks of securities for their own account.

The Association in its brief submitted to the Commission, has freely admitted that "In Canada during the war years the Chartered Banks performed an indispensable service but their main contribution was through facilitating the handling and forwarding of the enormous number of applications and cheques involved, together with the mak-

ing of Loans to subscribers -- functions one normally associates with the regular activities of a commercial bank.

In the War Loans of November 1915, September 1916 [illegible]rch 1917 the security dealers raised subscriptions for [illegible] substantial amount of these Loans but it was not in these Loans that the broad basis was laid for the distribution of and dealing in domestic loans. In the 1915 Loan there were only 24,862 subscribers; in the 1916 - 34,526 subscribers and in the March 1917 - 40,800 subscribers. It was in the Fall of 1917 after the New York market had been closed for Canadian borrowers and the amounts require by the Canadian Government had increased to much larger proportions that it became necessary to set up an organization for canvassing the whole people for raising amounts hitherto undreamed of as within the possibilities of the domestic market in Canada. We repeat that in the Victory Loans of 1917, 1918 and 1919 the Banks performed an in[illegible]able role in the field of purely commercial banking [illegible]ns, but we also again state that the organization for the actual raising of the subscriptions was either manned by partners or employees of bond dealer firms, or by men selected and trained under their direction. The increased breadth of the appeal in the Victory Loan campaigns is evident from the figures of subscribers. In 1917 the subscribers numbered 820,035 and in the second Victory Loan in 1918 the applications numbered 1,067,879.

Reference is made by the Bankers to the voluntary approach of holders of bonds, asking the Bank to arrange for the purchase or sale of such securities. In the final part of our Brief the Association stressed that it has no

objection to the Banks acting as agents for their customers. What was asked in this connection was that the Banks act <u>only</u> as agents for their customers.

We refer next to the discussion of orderly marketing as it appears in the Bankers' brief. There seems to be some misapprehension with regard to the duration of the period during which the orderly co-operative marketing organization functioned. The exact period was from January 1932 until the orderly marketing group was formally dissolved as at the close of business September 14, 1932. This formal dissolution was announced at a meeting held in the office of one of the security houses on the latter date. It is obvious therefore that any reference to an orderly merketing organization prior to January 1932 and after September 1932 is quite wide of the mark. During the actual period [illegible] orderly marketing above referred to, the management of those issues in the majority of cases devolved upon a security dealer firm, although in some cases the banker to the borrower was consulted. (We are fully aware that this statement is in direct contradiction to one made in the Bankers' brief.) May we point out also that the available figures on distribution effected during the period of orderly marketing indicate that approximately 87% of the [illegible] value of the bonds distributed during that period were sold by the dealers and only 13% by the banks. As this is the record of distribution in a period acknowledged in the Bankers' brief to have been one of exceptional difficulty, it would not appear that any case has been made out by the Banks for remaining in the field of underwriting and distribution of Provincial and Municipal issues.

In the whole period of orderly marketing, whether the negotiations with the borrower were conducted by a Bank or a security dealer, no committment was taken as between the negotiator of the issue and the borrower in connection with the securities distributed.

In connection with the foregoing two paragraphs, reference should be made to the figures submitted by us in Schedule "A" accompanying our letter of September 14th, 1933, addressed to the Secretary of the Commission.

We come now to the general point which we believe [illegible]ers' brief was intended to make, namely that the Banks should be allowed to remain in the business of underwriting and distributing Government, Provincial and Municipal securities and should retire completely from the field of underwriting and distribution of Corporation securities. May we refer once more to the Association's brief in which we feel this point is amply covered, and we feel also that no reference to conditions in the United States or Great Britain is applicable to the Canadian situation for the reasons set out in the brief.

May we emphasize again that the Association's brief does not prevent the Banks from acting as Agents for their customers.

May we quote again from our brief with regard to the impracticability of the Canadian Banks remaining in the business of underwriting and distributing Government and Municipal securities to the exclusion of Corporation Securities:

Quotation from Association's Brief:

"(4) Despite the policy of the Banks generally in trying to handle only Government securities in their retail

operations, they have not been able to escape the criticism of their clients for selling securities which have turned out to be unsatisfactory. But Canadian industry requires that a good market be maintained for the distribution of some securities which the Banks might be unwilling to sponsor, such securities being none the less legitimate and entitled to a good credit rating. If our banks, however, are to be permitted to operate their government bond distribution business it will be at the expense of the Bond Dealers. There is not sufficient Corporation financing to all Bond Dealers to maintain organizations for that [illegible] alone and it is obviously not in the public interest that Bond Dealers should confine their business to Corporation financing. It is important, therefore, that a strong Bond Dealer organization be maintained, founded on dealings in government securities. The existence of such an organization will be the best guarantee that the distribution of corporation securities will be kept on a sound basis. The Banks, themselves, will appreciate the importance of strengthening the facilities for the underwriting and distribution of credit - worthy corporation issues because industries able to easily finance their long-term credit requirements are desirable applicants for short-term bank credit.

"(5) The presence of Banks in underwriting syndicates have on numerous occasions created situations where the security dealer is deprived of the confidential relationship which he should have with the commercial bank at which he does his banking. At the present time when bidding or negotiating for new issues dealers often find it impossible

to consult with their bankers in order to arrange loan accomodation and foreign exchange coverage and other details because the bank is likely to be a member of an opposing syndicate and it is of course out of the question for the dealer to disclose his plans to a competitor.

"Another important aspect of this dual position of the banks is found in the case where a dealer in arranging a sale to a client is under the necessity of clearing the transaction through the branch of some chartered bank. The manager of this bank is unfortunately placed in a dual position. On the one hand he is supposed to be a confidential agent for the completion of the transaction between the dealer and the dealer's client; and on the other hand he is, to all practical purposes, a salesman of securities in competition with the dealer."

The Bankers in their brief have made a special point of the necessity of their participation in the underwriting of large issues [illegible] by government and municipal borrowers. The inference is that it is in the public interest that the facilities provided by the financial institutions of the country should be such that issues of Government and Municipal borrowers should be readily financed. In view of the [illegible] borrowing can readily be made by the Banks under the Finance Act on securities of this type at a low rate of interest (well under the coupon rate of most of such securities), and on a very narrow margin, does it not seem reasonable that in the public interest the Banks should stand prepared to finance such issues for Security Dealers at established rates during the period of distribution without their services involving a remunerative position in the

underwriting syndicate? Briefly, may it not be stated th the inability of the Security Houses to finance the purch of large issues of high-grade securities is not so much a criticism of the Security Dealers but rather an incidenta commentary on an undesirable aspect of the credit policy of the Chartered Banks with relation to the issues of publ borrowing bodies? It is surely quite possible for a Bank to advance a loan on an issue of securities without the Bank itself being a member of the syndicate purchasing the issue. Banks have not found it necessary to become grain dealers in order to make possible loans on wheat.

May we now turn to the comment made by a representative of the Canadian chartered banks before the Commission in the hearings held at Ottawa, and reported in the press September 16th. One of the Commissioners desired to know whether the Banks had any organization to discourage Provincial or Municipal borrowings in New York. The representative of the Chartered Banks implied that the bond dealers were responsible for encouraging the sale of bonds in New York.

First may we say that where the Canadian Provincial or Municipal borrowers called for optional tenders for issues (1) payable Canada only, and (2) issues payable Canada and New York, almost invariably the price tendered for bonds payable in the two markets was higher than that tendered for bonds payable in Canada only.

The Investment Bankers' Association of Canada feel they are correct in assuming that the Chartered Banks' representative in making the foregoing comment wished to disparage the activities of the Security Dealers in making issues carrying provision for payment in New York. In the

years 1926 to 1931 inclusive there were ninety issues mad by Dominion, Provincial, Municipal and Canadian Corporati borrowers which provided for payment in New York funds at the option of the holder, and which carried the names of one or more of the Canadian Chartered Banks, who appeared as sponsors, underwriters and distributors of the issues in company with Canadian Security Dealers. The aggregate amount of these issues was One billion eighty-five millio five hundred and fourteen thousand dollars ($1,085,514,00 So far from disparaging the attempt to facilitate the attraction of American capital to Canadian Government and Corporation issues, this record would seem to prove con- [illegible]ively that the making of issues payable in New York [illegible]e hearty approval and support of the various Canadi Chartered Banks. We have on the one hand, therefore, the public sponsorship of the Canadian Chartered Banks of issues made payable in the New York market, and on the ot hand the statement of their representative before the Com mission that the Chartered Banks apparently discouraged this borrowing with provision for New York payment. The position of the Security dealers as represented by the Investment Bankers' Association of Canada is that the borrowing in New York was done at a low cost; that Canad as a new country needed to import capital from abroad, a that the funds raised in the New York market provided es sential capital for public and private borrowers. Due t abnormal conditions in recent years Canadian borrowers h [illegible] placed under something of a handicap on maturities [illegible]erest and principal which had to be met in New York funds during the past two years. On the other hand, oth

external issues made in the London market carrying provision for payment in London in Sterling proved advantageous [illegible] borrowers. The Investment Bankers' Association acknowledges and takes credit for the action of its members in opening up the New York market as a field for the raising of some of the external capital requirements of the Dominion. They are convinced that in future years Canadian borrowers will require to have access to that market again. Briefly, the Association's members endeavour to maintain a consistency between their actions in sponsoring and distributing these issues with New York payment and their present views [illegible] to the long-term benefits accruing from the development and maintenance of an external market for Canadian borrowers.

In conclusion, after careful analysis of the Bankers' brief in which no defence is offered for unfair competition [illegible]t that they have failed to justify their intrusion [illegible]t [illegible] Investment Banking field and that their continuance in this field is impairing the efficiency of investment banking which is so essential to the welfare of the Dominion as a whole and to future commercial and industrial expansion.

B R I E F

CORPORATION OF

T H E   T O W N   O F   M I M I C O

September 8th, 1933.

Chairman,
Royal Com[illegible]ission on Banking,
Parliame[illegible]ldings,
Queen's [illegible]
Toronto, [illegible]

Dear Sir:-

This brief is presented to your Commission respect the Town of Mimico and its experiences with banking.

The Town has become financially embarrassed and we [illegible] consider our Bank is entirely blameless for that [illegible]ion.

Prior to the difficulty, Councils no doubt made th mistake of considerin[illegible] the Bankers' willingness to lend t[illegible] criterion of security. We believe this habit is more or less general throughout the country. The interest earnin of the Bank from the Town's business during:-

1928	$ 6,381.19		
1929	10,274.53		
1930	9,979.61		
1931	11,845.84		
19[illegible]	14,733.51	Total	$ 53,214.68

Compet[illegible] for this lucrative business unquestior interfered with sound business judgment from a security standpoint. The fear of losing the Town account by the and the Bankers' willingness to lend being considered the [illegible] of security, we suggest is a condition in which yo [illegible]ssion will be interested.

We find it difficult to segregate banking from an legislation pertaining to taxation.

Smaller Municipalities do not and cannot maintain a staff familiar in every detail with financing as do our large Cities with Finance Commissioners etc.

We suggest in this Province the scope of the Ontario Municipal Board, both from the standpoint of representation and endeavour, be broadened out so as to act in an advisory capacity to Councils, prior to making expenditures necessitating substantial Bank Loans.

Such a body could be an instrument of administration that would remove the fear of the Banker in losing business by being frank. It could be of assistance to a growing Municipality in influencing the Legislative Assembly to enact legislation that would maintain equality in taxation for community services under new development.

In amending the Bank Act the Government should have in mind the permission of references that such a body may deem advisable to submit from time to time.

We would emphasize financial problems have been particularly embarrassing in suburban and growing Municipalities adjoining one another. Inequalities in taxation for community services has placed such a financial responsibility upon some of these Municipalities that they are unable to meet their just obligations.

We estimate this condition is costing Mimico over $50,000. annually and to be one of the chief difficulties in balancing our budget. The significance of this is evident when we realize $4,400. equals one mill of taxation.

The validity of Part VI of the Ontario Municipal Act with respect to all Federal Legislation including the Banking Act should be clearly established.

The relationship between Banks, Debenture Holders an Taxpayers who do pay promptly and in full, should be definitely provided for, and clearly defined in event of default, [illegible] by a substantial portion of the Taxpayers being [illegible] to meet their obligations.

This Council is of the opinion the very rigidity heretofore considered fundamental with our banking system may be detrimental when so much thought is being directed as to the advisability of the laboring people being required to absorb most of the shock of business fluctuation.

Unemployment, reduced working hours, demotions and reduced wages is a combination that has prevented our people from meeting their obligations and ultimately bank loans have increased and interest has not been paid, resulting in credit being stopped and default on Debentures. This caused the Bank to make a run on the public. The machinery of Municipal Government was thrown out of gear and the power of our Banks was brought home very forcibly.

It is true we have had no Bank failures in Canada, due largely to Government business and assistance in one form or another, but it is equally true there has been a good many private and Municipal failures partially due to the Bankers swing to the safety extreme during this depression. Our Bank monopoly is equivalent to a money trust. It has made our people servants of finance rather than finance servants of people.

The stigma of stopping credit, rather than better judgment in advancing loans in prosperous years has made a bad position decidely worse. We therefore recommend that our Government keep greater control over our Banks,

before they become absolute servants of the Banks.

We note with concern the campaign against social legislation by Banking Presidents and other leaders in finance.

We suggest in amending the Bank Act no saving should be considered in this regard so long as speculative opportunities prevail in their various forms, our people will [illegible] urrender but will expect greater benefits from such [illegible] tive enactments.

Successful Banking depends on the ability of those with whom they do business to pay their debts. We emphasize this because there has grown up an opinion that the lender rather than the payer is all important in Municipal financing, and to emphasize the welfare of the Taxpayer is a most important factor in banking.

To content ourselves with only complaining of previo[illegible] Municipal expenditures being entirely responsible for the inability o[illegible] eople to pay their Bank Loans, is only permitting ourselves to be misled. The fact is a substantial portion of our people have had their earning power reduced until they can pay little or no taxes.

We are of the opinion that reduced interest on [illegible] lly all Federal, Provincial, Municipal and private [illegible] uld be at least temporarily enforced.

We believe reduction in interest rate and tax reformation has been the main factors in giving greater stability to the financial structure in Great Britain and to longer delay it here is most inadvisable. It is partially and gradually being accomplished by our Federal and Provincial Governments by refunding debt, but our Municipal system of financing has a debt retiring feature, and

refunding is not practicable excepting in case of default and then it is a cumbersome and expensive procedure.

A central office to register owners of all Public Bonds is advisable.

The advisability of reduced interest charges is not openly expressed by many, but we believe it is quietly conceded by those who give leadership to financing problems. We consider it much more desirable than ultimate repudiation.

Repudiation is avowed by few, but an effort to extract high interest rates we are convinced will meet with failure. Neglect to pay interest is the first silent step towards repudiation, when people become contented over neglected payment of interest it is easier to declare in favour of repudiation and when public faith is once disregarded faith in private financing soon follows.

We suggest therefore reduction of interest charges and greater equalization of taxation particularly Municipal taxation should and must take place, and in amending the Bank Act nothing should be done to retard any such legislation.

All of which is respectfully submitted.

(Sgd.) A.D. Norris, Mayor.

(Sgd.) W.A. Edwards, Chairman
Finance Committee.

MEMORANDUM RE MUNICIPAL FINANCE

Submitted by

Horace L. Brittain
Citizens' Research Institute of Canada, Toronto.

Borrowing by Municipalities under Existing Conditions
Has Been too Heavy in Many Instances.

One of the phenomena which has become apparent in recent years is the increase in municipal debenture debt. Including schools, this amounted to about $416,000,000 in 1913, $999,919,496 in 1922, $1,343,294,481 in 1930 and in 1932, as of May, about $1,430,000,000. The annual debt charges thereon, being interest and sinking fund or serial repayments of principal, could not have fallen far short of $100,000,000. In ten cities of over 50,000 population, a compilation by the Citizens' Research Institute of Canada shows that debt charges payable out of taxation and incidental revenues constituted from 27.9% to 53.7% of the current tax levy with an average of 35.6% on the total current levy. Including the incidental revenues the percentage would, of course, be somewhat lower. Part of this debt and the corresponding annual debt charges are on self-sustaining public utilities and therefore have no effect on current taxation; but the larger portion is a direct charge on tax revenue and to that extent adds considerably to the tax burden. The municipal tax burden including school taxation went up from over $90,000,000 in 1913 to over $281,000,000 in 1931. Probably the majority of the municipalities in default at this time, and large numbers of other municipalities which are experiencing difficulties as the result of increasing arrears of taxes, may

ascribe their present position largely to heavy borrowing on capital and current account. It is hardly likely that such municipalities will be materially assisted by making [illegible] easier to borrow money on either capital or current [illegible]. If the best interests of the borrowing municipalities had been considered rather than the probability of the lenders getting their money back,municipal debt (funded and floating), the consequent annual debt charges, and the tax levy would not be so burdensome now, at a time when the power to pay of taxpayers has been so greatly reduced. It would seem reasonable to suppose that, if municipalities had restricted their borrowing by pursuing either the pay-as-you-go policy or the do-without-what-is-not-necessary policy, [illegible] credit would have been increased, and that they would have been able to borrow more cheaply funds necessary for essentials both in good and bad times. While it may be necessary at present to temper the wind to the shorn lamb, even when it had asked to be shorn, as [illegible] policy "easy money" can hardly stand examination. [illegible] can readily believe that if it had been easier and cheaper to obtain money in the past, more municipalities would have been in default and more in financial difficulties at present than is actually the case.

That municipalities can control their debt is shown by the fact that out of 16 of the largest cities in Canada, 8 reduced their per capita net general debt between 1922 and 1932. Of these, six made large reductions, 5 being in the Canadian West and one in the East. The excellent record of these cities in per capita debt reduction during the decade would hardly have been possible if ready access to cheap borrowed funds had been available.

Heavy Taxation and the Depression have Combined to Increase Tax Arrears Greatly

Another phenomenon in the field of municipal finance at the present time is the huge increase of tax arrears.

The total tax arrears of 73 urban and suburban municipalities in Canada with a population of 10,000 and over grew from $51,303,699 in 1930 to $61,297,539 in 1931 and $77,577,416 in 1932. The combined 1932 tax levy of these municipalities was $182,783,060 or about 65% of the total municipal and school tax levy in Canada in 1932. In two cities the arrears exceed the total current levy and in two more are almost equal to it. In 21 others of these municipalities the tax arrears exceed one half of the total tax levy. The following combined record of 16 of the largest cities in this list is illuminating:

Year	Per Capita Arrears
1922	$15.63
1925	14.71
1928	12.31
1930	12.86
1931	15.13
1932	19.61

It would appear that if there had been less easy money previous to 1928, the scales of debt and current expenditure might have been lower, the taxation lighter and the accumulated tax arrears less burdensome. In fact the figures show that in municipalities which succeeded in reducing taxation in the years of depression there was a reduction in the percentage of uncollected taxes on the current tax levy.

The tax arrears situation is acute in many rural municipalities. In nine townships for which the Institute has figures, the municipalities collected less than one half of their levies.

Would Not the Issue of Currency to Banks to Loan to Municipalities or the Guarantee of the Bonds of one Level of Government by Superior Governments Tend to Work Against Efficiency in Administration?

If one municipality could be assisted in this way, all could and probably most would. The poorly managed municipality would borrow at the same rate as the well managed. It could hardly be expected that the banks would refuse to lend to a municipality when the government was advancing the funds or guaranteeing the loan, or that the government would differentiate between municipalities desiring loans.

Money loaned would have to be paid back. The share of any municipality which could not pay would have to be shouldered by the remainder. The solvent, self-supporting and conservatively managed municipalities would tend to become fewer and fewer. On the other hand, if municipalities knew that they could borrow only at a rate corresponding to their record, and might not be able to borrow at all, is it not likely that there would be fewer municipalities requiring assistance? It is reported that an Ontario County has recently reversed its policy of guaranteeing the debentures of its local municipalities.

One Way to Overcome the Necessity of Borrowing to Finance Current Expenditure Would be to Levy Taxes Before the Expenditure is Made Instead of After.

In the September-October issue of the Quebec Municipal Bulletin, the Deputy Minister of Municipalities asks the following question, "When should a municipality levy the tax required to permit it to collect the funds which are required to carry on the administration?" He answers

it as follows: "The normal date, which is mentioned by the Code, is in the month of October. Some municipalities impose their annual taxes in October, but for the current year. This is in error as it then happens that the municipality is administered between January and October without a dollar having been voted, and without taxes having been imposed. The collection roll which is made in October as well as the tax which must have been imposed, is for the following fiscal year, beginning on the first of January next."

Such a system may be a gospel of perfection but what reason is there that in all provinces the law should not provide that the municipal budget should be prepared tentatively for the following year in October and November, should be passed finally by the fifteenth of January, and that the first instalment of the tax levy should be payable by March 1st. Prepayment of taxes could be encouraged. Such a system would largely do away with the necessity for current borrowing, and would meet the need of those taxpayers who are most in funds toward the end of one year and the beginning of the next. A five or ten year budget of capital improvement subject to revision each year, properly administered, should greatly reduce the amount of borrowing for capital purposes.

It would take some time to bring about these reforms, but with a will to achieve they could be accomplished before the next depression is upon us. Palliatives may be necessary at present in some cases, but a thorough going reform in municipal budget making and financing would make the administration of palliatives unnecessary.

BRIEF SUBMITTED BY

THE CANADIAN CHAMBER OF COMMERCE

September 23, 1933.

To the Right Honourable Lord Macmillan, P.C.,
Chairman, and to the Members of the
Royal Commission on Banking and Currency,
MONTREAL.

My Lord and Honourable Sirs,

Referring to our submission to you under date of September 7th, I may now say that a wide and intelligent interest has been shown in the enquiry which was undertaken a month ago among our directors and members with the object of obtaining their point of view on the banking system. We have received over a hundred replies from all the provinces setting forth the opinions of some of our principal Boards of Trade and Chambers of Commerce, of a majority of our directors and of a large number of the leading Canadian business firms in the Dominion. These views are representative and suggestive. Our Executive, therefore, without setting forth a Chamber opinion, believe that they may properly outline to you the feeling of Canadian business, as gathered from our survey, toward the operation of our banks.

In the first place, the opinion is unanimous from one end of the country to the other that Canada has ample reason to be gratified with the stability of our banking system and with the enviable position it holds in international finance. That the banks have stood Canada in good stead, both in normal times and when business and the public elsewhere have been apprehensive of the security of their deposits, is admitted on every hand. Irrespective of whatever changes which here and there are recommended, it is clear that business regards

the soundness of our banks as one of our greatest national assets.

With regard to the question of setting up in Canada a central bank, it may be stated that based on our analysis, opinion in Alberta, Saskatchewan, Manitoba and Prince Edward Island, leans toward such an organization, whereas in the other provinces, business opinion for the most part is otherwise inclined. It is only fair to remark, however, that even on the prairies business opinion is far from being in entire agreement on the necessity or advisability of a central bank. On the other hand the preponderating feeling in British Columbia, Ontario, Quebec, New Brunswick and Nova Scotia is strongly set against such an organization. Those who favour a central bank visualize it as a medium for stabilizing foreign exchange and domestic price levels, for influencing the expansion and contraction of credit, and for the securing of greater elasticity in interest rates. Those taking the opposite view claim, that even if a central bank could perform these functions in Canada, other countries with central banks have latterly suffered more serious economic ills than has Canada, and that central bank operations have not prevented in those countries recurring depressions. It is further advocated by many competent business men that no such radical change as the establishment of a central bank should be made under existing conditions; that a central bank could hardly be entirely divorced from political influence; that it would doubtless be an additional cost for the country to set up and operate, when economy is so necessary at the present

time, and that any deficiencies in our banking and currency legislation can be remedied within our present laws. It may be further stated that the advocates of a central banking institution -- and their sincerity and number are unquestioned -- are not altogether clear or agreed as to just what the regulative functions of such an organization would be.

Respecting the question of credit, it is generally thought its availability has to be primarily governed by business conditions and the security offered, inasmuch as the banks are loaning funds entrusted to their care by depositors. Were the banks to grant credit on uneconomic bases such action, if persisted in, would wreck the banks, while any speculative practices the public would be the first to decry. Indeed, instances have been cited where too much credit in good times was allowed to farmers, industrialists and municipalities, not only by the banks but, in the case of farmers, by merchants and machinery companies. Other cases are cited where it has seemed too little credit has been made available, especially to the smaller retailer. So far as the present is concerned, it is pointed out that the banks have abundant cash and liquid securities on hand, but the demand for credit by those who have the right to expect it, is limited. A cross section of the analysis, however, would indicate that by and large it is felt that business has been fairly treated by the banks in so far as credit availability is concerned, and that the banks are to be commended for the care they have generally exercised in granting credit. What is often

stressed is that means should be devised of levelling out both the peaks of easily-available money and the valleys of dried-up credit. Attention is also called in the analysis to the help the farmer would receive were farm loans to be originally arranged for longer periods than generally fixed.

In the matter of interest rates, it is felt in various quarters and more particularly on the prairies that interest rates should come down. Even in the west, however, it is recognized that interest rates must vary because of the cost of doing business and because the loaning risk varies in different areas and occupations. What is desirable, so it is pointed out, is that interest rates should be as low in each area and occupation as cost, risk and other related factors make proper. It is further felt that the reduction of interest rates on saving deposits being general, the reduction in interest rates on farm and commercial loans should also be general. Any lowering of interest rates, so it is similarly claimed would have the tendency of stimulating business in these days of recovery. Reference is frequently made to the desirability of a greater flexibility in interest rates which are, in the opinion of some, too high at present compared with the price of other commodities. On the other hand several specific references are made to the fact that Canadian interest rates are fortunately stable and do not fluctuate as in some other countries.

I have the honour to be,

My Lord and Honourable Sirs,

Your most obedient servant,

(Signed) John W. Ross,

THE CANADIAN CHARTERED BANKS.

The memorandum which follows is respectfully submitte to the Royal Commission on Banking and Currency, following the brief discussion of returns in the evidence of the 22nd day. The memorandum represents the views of the following:

Mr. H. R. Jackman	-	Canadian General Securities Ltd
Mr. A. C. Walwyn	-	Dominion Securities Corporation Ltd.,
Mr. D. C. McGregor	-	The University of Toronto,
Mr. J. F. Parkinson	-	The University of Toronto,
Mr. G. E. Jackson	-	The University of Toronto.

These men, acting as individuals and not in a rep resentative character, have constituted themselves an unoffi ial committee for the purpose of analyzing the returns. The committee was obliged, for obvious reasons, to restrict its membership to persons in the neighbourhood of Toronto who are interested in statistics. It presents the following observations:

1. Bank returns exist for two main purposes: to disclose the position of individual banks, and to furnish diagnostic material for business men and others engaged in the study of business conditions. At the time of the last revision of the Bank Act the position of Inspector General had not been created; and a good deal of importance attached, therefore, to the former, as well as to the latter of the above mentioned purposes. Since the details of banking operations are now continuously scrutinized by the Inspector General of Banks, who reports thereon to the Minister of Finance, the position has been radically changed; and the returns required under present legislation are less directly necessary, as evidence of the conditions of individual banks,

ROYAL COMMISSION

ON

BANKING AND CURRENCY

1d

PROCEEDINGS

1933

ADDENDA

ROBERT BRYDIE,
OFFICIAL REPORTER

OBSERVATIONS WITH REGARD TO RETURNS AT PRESENT REQUIRED FROM THE CANADIAN CHARTERED BANKS.

The memorandum which follows is respectfully submitted to the Royal Commission on Banking and Currency, following the brief discussion of returns in the evidence of the 22nd day. The memorandum represents the views of the following:

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Mr. A. C. Walwyn	-	Dominion Securities Corporation Ltd.,
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These men, acting as individuals and not in a representative character, have constituted themselves an unofficial committee for the purpose of analyzing the returns. The committee was obliged, for obvious reasons, to restrict its membership to persons in the neighbourhood of Toronto who are interested in statistics. It presents the following observations:

1. Bank returns exist for two main purposes: to disclose the position of individual banks, and to furnish diagnostic material for business men and others engaged in the study of business conditions. At the time of the last revision of the Bank Act the position of Inspector General had not been created; and a good deal of importance attached, therefore, to the former, as well as to the latter of the above mentioned purposes. Since the details of banking operations are now continuously scrutinized by the Inspector General of Banks, who reports thereon to the Minister of Finance, the position has been radically changed; and the returns required under present legislation are less directly necessary, as evidence of the conditions of individual banks,

than they were ten years ago. They are, therefore, consi in this memorandum mainly from the standpoint of their va as diagnostic material.

2. Considered from this standpoint, such returns shou fulfil four main requirements: they should be as simple possible; they should be as easily collected as possible; they should be collected and published at short intervals; and, when received, they should be made available without moment's delay.

3. The returns required from the Canadian banks are at least as full as those published by any banks in any country. Such analysis of them as has already been made shows that they provide an immense field of scientific inquiry, and suggests that analysis of them may throw ver valuable light on the working of the Canadian banking syst Nevertheless, they are not proving of as great value as they might be to students of current business conditions. This remark applies especially to the monthly return of the chartered banks furnished under Section 112 of The Ban Act. In the first place, the data summarized in this retu are collected in the head offices of the banks during a period of nearly four weeks following the last day of the month to which the return relates, and are then remitted t Ottawa, where publication in the Canada Gazette is frequen delayed; so that the printed return becomes available perhaps six weeks after the date to which it refers. In t second place, the classifications in the monthly return a not the same as those required (by Section 5? of The Bank Act) in the annual statement of the bank; and the list of items in the Liabilities column of the monthly statement

omits certain of the Liabilities, thus leaving a discrepancy between the statistics of Total Liabilities (a partial figure) and the statistics of Total Assets (a complete figure).

4. The suggestions offered in this memorandum may be grouped under four headings:

(a) The simplification of the monthly return, by mean of the clearer definition of certain items; the revisi of others; and the deletion of certain items which we inclined to regard as unnecessary;

(b) The revision of the form of annual statement of t bank, so as to make it strictly parallel to the form o the monthly returns;

(c) The collection each week of a small number of imp tant items from certain Canadian branches of the banks (but not from all such branches); and immediate public tion of these figures as aggregates, but not in relati to particular banks; and

(d) A discontinuance or infrequent collection or modification of certain other returns (the sundry returns discussed in paragraph 13, below) which were, no doubt, necessary before the creation of the position of Inspector General, but which may be regarded as less necessary to-day.

We have also considered, in this connection, the question whether the banks should be required to make ret in such a form as to satisfy demands for the publication regional statistics of loans and deposits. We believe th if such returns were to be published in full, the result would only be to strengthen the forces of sectionalism in

current political discussion. Nevertheless, in connection with the weekly statement mentioned under Subsection (c) above, we believe that this demand might well be satisfied in part.

5. We are aware that the completion of the monthly return, now so long delayed, could be hastened quite considerably if the banks were to submit, as at present, the figures of the current month in the case of accessible branches, and in the case of a large number of their less accessible branches, were to include the figures of the last previous month instead of those of the current month. We believe, however, that it is important to have in the monthly return (despite the delay involved by this), a complete picture of the position of each of the Canadian banks, in all its branches at home and abroad, as of the same date. We therefore make only one suggestion, with a view to accelerating the appearance of the monthly return: that immediately upon receipt of this return from all of the Canadian banks (say on the 24th of the month following the date to which the return relates) it be printed by the Department of Finance and immediately given to the Press, without waiting for the publication of the issue of the Canada Gazette subsequent to the next following Thursday, as appears to be the practice at present; though the statement (having been printed and issued immediately to the Press) might as well also, as a matter of routine, be reprinted in the Canada Gazette in accordance with the present practice. This would make the facts in the monthly return available to the public nearly two weeks earlier than at present. The need for prompt release of banking

statistics would, in the main, however, be taken care of by the weekly publication of the figures, to which reference has already been made in Subsection (c) above; and which are discussed in detail in paragraphs 11 and 12, below.

6. With regard to the form of the monthly return, it is suggested that the fifty-two items at present required by law might be simplified very considerably, so as to lighten the labours in the accounting offices of the banks, and accelerate the tabulation of the figures without reducing their value when published. We believe that the number of items might well be reduced to forty-one. In detail, our suggestions are as follows (numerical references are to the monthly statement in its present form):

<u>In the Liabilities Column</u>:

Item No. 7: Should read: "Deposits elsewhere than in Canada <u>or in other than Canadian</u> currency" (That is to say, deposits of sterling or United States currency, made in Canada, should be classified in Item No. 7).

Item No. 8: This we believe should be deleted.

Items Nos. 10 and 11: These we believe should be merged under the heading, "Due to banks and banking correspondents elsewhere than in Canada".

Item No.14: This we believe should read, "<u>All other</u> liabilities not included under foregoing heads".

Item No.15: This we believe should be deleted.

Among the items in the Liabilities Column which are not numbered we believe that the following should be deleted:

Capital authorized ....

Capital subscribed ....

Average amount of current gold and subsidiary coin held during the month ....

Average amount of Dominion notes held during the month ....

In the case of the two former, the figures are a mere repetition from month to month. In the case of the two latter, they have no particular significance.

<u>In the Assets Column</u>:

Item No. 2: Should we believe read as follows: "Dominion notes .....". (In other word no purpose is served by specifying separately those held in Canada and th held elsewhere).

Item No. 3: Should read, "Notes of <u>other Canadian</u> banks".

Item No. 6: This we believe should be deleted.

Items Nos. 8 and 9: These we believe might well be merged under the heading, "Due from banks and banking correspondents elsewhere than in Canada".

Items Nos. 10, 11 and 12: These we believe might well be re-defir to read as follows:

No. 10 - "Dominion government and provi cial government treasury bill

No. 11 - "Dominion government, provin government and municipal soc ies".

No. 12 - "Other investments in bonds, debentures and stocks".

(This would bring out clearly the short holdings of the banks.)

Item No. 13: This we believe might well be bifurcated as follows:

(a) "Call and demand loans in Canada, to members of recognized stock exchanges"

(b) "Other call and demand loans in Canada on bonds, debentures, stocks and other securities".

(This would serve to make clearer than at present the relation between certain of the call loans, and speculative market movements).

Item No. 14: This should be re-phrased so as to read: "Call and demand loans elsewhere than in Canada on stocks, debentures, bonds and other securities".

Item NO. 17: This we believe should be deleted.

Item No. 20: This we believe should be deleted.

Items Nos. 21 and 22: These we believe might well be merged under the heading, "Real estate other than bank premises, and mortgages on real estate sold by the bank".

These things would, we believe, add to the value of the monthly return by the addition of certain items of information, as well as shorten it considerably.

7. If these suggestions were adopted, the new form of the monthly return would be as shown on the attached sheets (pages 11, 12 and 13, below), in which, also, the items are re-numbered in accordance with the simplification proposed:

RETURN OF LIABILITIES AND ASSETS.

Of the ....Bank.
On the ....day of ....1933.

LIABILITIES:

1.	Notes in circulation.	$...........
2.	Balance due to Dominion Government after deducting advances for credits, pay lists, etc.	....
3.	Advances under The Finance Act	....
4.	Deposits made by and balances due to provincial governments	....
5.	Deposits by the public, payable on demand in Canada	....
6.	Deposits by the public, payable after notice or on a fixed day, in Canada	....
7.	Deposits elsewhere than in Canada, or in other than Canadian currency	....
8.	Deposits made by, and balances due to other banks in Canada	....
9.	Deposits made by and balances due to banks and banking correspondents elsewhere than in Canada	....
10.	Bills payable	
11.	Letters of credit outstanding	....
12.	All other liabilities not included under the foregoing heads	....
13.	Rest or Reserve fund	....
14.	Capital paid up	....
	Rate per cent. of last dividend declared	per cent.
	Aggregate amount of loans to directors and firms of which they are partners, and loans for which they are guarantors	$...........
	Greatest amount of notes of the bank, in circulation at any time during the month	....
		$

ASSETS:

1. Current gold and subsidiary coin -
   In Canada ....
   Elsewhere .... $ ....
2. Dominion notes ....
3. Notes of other Canadian banks ....
4. United States and other foreign currencies ....
5. Cheques on other banks ....
6. Deposits made with, and balances due from other banks in Canada ....
7. Due from banks and banking correspondents elsewhere than in Canada ....
8. Dominion Government and Provincial Government treasury bills ....
9. Dominion Government, Provincial Government and municipal securities ....
10. Other investments in bonds, debentures and stocks ....
11. Call and demand loans in Canada, to members of recognized stock exchanges ....
12. Other call and demand loans in Canada on bonds, debentures, stocks and other securities ....
13. Call and demand loans elsewhere than in Canada, on stocks, debentures, bonds and other securities ....
14. Other current loans and discounts in Canada, after making full provision for bad and doubtful debts ....
15. Other current loans and discounts elsewhere than in Canada, after making full provision for bad and doubtful debts ....
16. Loans to provincial governments ....
17. Loans to cities, towns, municipalities and school districts ....
18. Liabilities of customers under letters of credit as per contra ....
19. Real estate other than bank premises, and mortgages on real estate sold by the bank ....

ASSETS - Continued.

20.	Bank premises, at not more than cost, loss amounts (if any) written off	$ ....
21.	Deposit with the Minister of Finance for the security of note circulation	....
22.	Deposit in the central gold reserves	....
23.	Shares of and loans to controlled companies	....
24.	Other assets not included under the foregoing heads	....
		$

8. With regard to the form of annual statements, we believe that Section 53 of The Bank Act should be amended so as to make the annual statements strictly parallel to the monthly returns. This would involve a series of verbal alterations in Subsection 2 of the Section, which we need not particularize here.

9. In addition to the monthly returns and annual statements, we believe that there should be a weekly return, which would not purport to cover the whole of the Canadian banking system, but would include all Canadian branches maintained in cities of 50,000 population or more, and in cities of less than 50,000 in which an Assistant Receiver General is situated. This statement would correspond roughly with the statement published each week in the United States, under the heading of "Principal Resources and Liabilities of Reporting Member Banks in Leading Cities". The Canadian cities, in respect of which information would be collected for the weekly return, are as follows:

Charlottetown, P.E.I.
Halifax, N. S.
Saint John, N. B.
Quebec, P. Q.
Hamilton, Ont.
London, Ont.
Windsor, Ont.
Winnipeg, Man.
Regina, Sask.
Verdun, P. Q.
Montreal, P. Q.
Ottawa, Ont.
Toronto, Ont.
Calgary, Alta.
Edmonton, Alta.
Vancouver, B. C.
Victoria, B. C.

No good purpose would be served by specifying in th weekly return the statistics of individual banks. We suggest, that (for the most part) these figures be publish only in aggregate form: though this is qualified by a fur ther suggestion in paragraph 12, below.

10. The procedure that we recommend in connection with the weekly return is as follows:

Statistics of all branches of a bank in any given city should be given to the chief office of the bank in th city, on the day following the date to which the statistic relate. The consolidated figures of the bank for that cit should be reported telegraphically to the head office of the bank on the same day; on the next following day, the head office of the bank, having tabulated the figures from all of the cities to which the report relates, should forward them to the Canadian Bankers' Association, which woul immediately consolidate the statistics of individual bank into the form proposed, and forward them to the Dominion Bureau of Statistics, which would issue them to the Press.

11. The weekly return need contain only a small portio of the items specified in the monthly return. We suggest that the number should be restricted to three in the Liabilities Column, and six in the Assets Column, as shown on pages 17 and 18, below:

CONSOLIDATED WEEKLY RETURN OF CERTAIN LIABILITIES AND ASSETS IN CANADA

Of the Chartered Banks
On the ....day of 1933

LIABILITIES

1.	Advances under The Finance Act	$ ....
2.	Deposits by the public, payable on demand in Canada	....
3.	Deposits by the public, payable after notice or on a fixed date in Canada	....
		$

ASSETS

1.	Dominion Government and Provincial Government treasury bills	$ ....
2.	Dominion Government, Provincial Government and Municipal securities	....
3.	Other investments in bonds, debentures and stocks	....
4.	Call and demand loans in Canada, to members of recognized stock exchanges	....
5.	Other call and demand loans in Canada, on bonds, debentures, stocks and other securities	....
6.	Other current loans and discounts in Canada	....
		$

Ruling rate on call loans to stock exchange members against first class security ....%

To the weekly return of each individual bank should be attached the following statement:-

"The foregoing return shows truly and clearly the financial position of the bank in respect of all branches which it maintains in the following cities:

Charlottetown, P.E.I.	London, Ont.
Halifax, N. S.	Windsor, Ont.
Saint John, N. B.	Winnipeg, Man.
Quebec, P. Q.	Regina, Sask.
Verdun, P. Q.	Calgary, Alta.
Montreal, P. Q.	Edmonton, Alta.
Ottawa, Ont.	Vancouver, B. C.
Toronto, Ont.	Victoria, B. C.
Hamilton, Ont."	

We believe that th[illegible] [illegible]cification, on the foregoin page, of the bank's minimum rate on call loans to stock exchange members against first class security, provides a valuable medium for the exercise of the bank's moral influence in restraint of undue speculation; and that if, in time to come, the ruling rate on call loans is varied more frequently than it has been in the past, the benefic influence of the banks is likely to be increased accordin

12. We believe that, in additi[illegible] to the foregoing item the weekly return should include t[illegible] [illegible]ll[illegible]wing items:

CONSOLIDATED WEEKLY RETURN OF CERTAI[illegible]

LIABILITIES AND ASSETS IN CANADA.

Of the Chartered Banks.
On the ....day of ....1933.

	In Main Branches at Montreal, Toronto and Winnipeg	In All Other Reporting Branches	Total: All Rep[illegible]ing Branche[illegible]
Debits Against Deposits Payable on Demand in Branches of the Banks during the week ended	$...........	....	....
Total of Deposits payable on Demand in Branches of the Bank on	....	....	....

- Continued -

	In Main Branches at Montreal, Toronto and Winnipeg	In All Other Reporting Branches	Total: In All Report ing Branches
Debits Against Deposits Payable after Notice in Branches of the Bank during the week ended	$............	....	....
Total of Deposits payable after Notice in Branches of the Bank on	....	....	....

This would make it possible to measure the rate o turnover of money held on current account, and on deposi account, respectively; and by segregating the statistics of Montreal, Toronto and Winnipeg from the statistics of the fourteen other citi erated, would make possibl a rough distinction between variations in the statistics of debits due to changes in financial activity, and vari tions in the statistics of debits due to changes in gene business activity throughout the country.

We believe that the same procedure should be foll ed in respect of the monthly statistics of debits to individual accounts in clearing house centres, now publi by the Dominion Bureau of Statistics.

13. In addition to the suggesti that have already made with regard to the form of the annual returns, the monthly returns and the proposed weekly returns, respect ely, we wish to offer certain suggestions regarding oth statutory returns required by The Bank Act as follows:

Section 78/2

Return of Fair Market Value of Real Estate and Real and Immovable Property: So far as we are aware, the values recorded in this return are eithe the original cost of the properties, or those shown by any more recent appraisal which has been made.

These valu may in some individual cases be reduced, where especial local circumstances indicat that the figures previously used are too high. We believe, however, that no attempt is made to vary these values for the purpose of reflecting temporar fluctuations in Canadian economic conditions; nor, indeed, do we think that such a practice would be feasible. Most of the entries in the return do not vary from year to year, except where additional expenditures on a property are made, or a property disappears through sale.

Under these circumstances, we recommend that a full return, on the present lines, be submitted at five-year intervals, and that in the intervening ye the return should cover only the detail of any chan which have been made, in the values reported in the basic return.

Section 91/2

Quarterly Return of Interest and Discount Rates: We believe that the purpose of this return was to give information as to the amount of loans made in Canada by the banks, at rates higher than 7%. It is not used, so far as we know, for any statistical study. The distinction drawn between

interest-bearing and discounted notes, and the detail of rates charged outside Canada, would seem to serve no useful purpose, and the work involved in the preparation of the return is heavy.

We recommend that, if the return is to be continued at all, it be submitted annually, or at most not oftener than semi-annually, and that the information required be confined to the following headings:

Interest Return on Loans in Canada:

Loans under $50.00	$.......
Loans over $50.00 -	
At 7% per annum or less	$.......
Over 7% per annum and up to 8%	....
Over 8% per annum and up to 9%	....
Over 9% per annum	....
Total loans in Canada	$ ....

Section 114/8

Annual List of Shareholders: This return, which is submitted at the end of the calendar year, calls for a list of shareholders showing for each:

(a) Name.
(b) Post office address.
(c) Description.
(d) Number of shares held.
(e) Amount paid thereon.

Most, if not all, of the Canadian banks issue a printed list of their shareholders as at the end of their fiscal year, which contains all the above information, except that called for under (c), the description of the shareholder, and under (e), the amount paid on his shares. The preparation of this list at the end of the calendar year, by those banks whose year closes on some other date, imposes on them

what seems to be unnecessary duplication of work.

So far as is known, no use is made of the information submitted under "description". If this is required at any time, it could be called for by way of a special return.

Since new issues of bank stock in Canada are rare, and since, when they are made, it is the practice to require payment for shares in full within little more than the minimum period set by Section of the Act, it seems somewhat unnecessary and meaningless to record, after each stockholder's name, the information required under (e). We, therefore, recommend that the Act be amended so as to require this return as at the close of the fiscal year of each bank, and to omit the "description" of the shareholder; and that the information required under (e) be submitted as a general certificate, to the effect either that all of the capital stock issued is fully paid for, or that there are outstanding subscriptions for .... shares, upon which the amount $.... is still due.

14. To repeat what has already been said above it is obvious that if all of the foregoing changes were be adopted, the volume of work in the accounting offices of the banks would be materially reduced. We believe that reduction of work, while speeding its completion, would affect no one unfavourably. Indeed, we are of the opinion that returns made along the lines suggested in this memorandum would permit of a more fruitful use of bank statistics in the diagnosis of current business conditi

as well as facilitate the scientific analysis of banking activities over long periods.

15. In addition to improving the statistics of banking operations proper, it is desirable that the banks should in future co-operate with the Dominion Statistician by making suitable returns for the annual Census of Industry. The principal items in such a return would probably be the number of establishments, the actual value of land and buildings employed (not the written down value as shown in the list of assets), the number of employees, the annual disbursements for salaries and wages, and the cost of materials purchased. In accordance with the usual practice, the results for individual banks would not, of course, be disclosed in the results published by the Dominion Bureau of Statistics.

In view of the large number of persons employed by the banks, it is also desirable that the banks should co-operate with the Dominion Statistician in making a monthly return of the number of their employees in order to widen the scope of the present index number of employment.

MEMORANDUM ON

CANADIAN STATISTICS FOR THE GUIDANCE OF FINANCIAL AND MONETARY POLICY

Submitted by
The Dominion Statistician

"There can be few worse perversions of the ideal of wise economy than a narrow limitation on what we spend for the improvement of economic knowledge."

Report of the Macmillan Committee
Paragraph 406

Part 1. - The Recommendations of the Macmillan Committee and their suggestions for Canadian Statistics.

The British Committee on Finance and Industry, generally known as the Macmillan Committee, made in 1931 a Report* which has become one of the chief sources of ligh and leading in the present emergency. The first part of the Report is historical and descriptive, while Part II contains its conclusions and recommendations. In the fifth chapter of Part II are stated the Committee's "Proposals relating to Information and Statistics". It is with these proposals, - the product of deliberations by the best minds of the Mother Country, - that the present memorandum begins constituting as these do an admirable "approach" to consideration of the similar situation for Canada. In the fir: place this will show how far the statistical information considered as desirable in Great Britain is already availab] here, - from which we may go on to examine in detail what further improvements and amplifications are called for under conditions obtaining in Canada.

It may be pointed out in general that the Macmillan Committee is frankly critical of the present position of British statistics. At the beginning of paragraph 406 it

* Cmd. 3897.

it states that "except in the case of unemployment statist which are required for administrative purposes, this count (which was the pioneer in statistical surveys) has been falling seriously behind the United States." Now, while U.S. statistics are undoubtedly better than Canadian in certain fields (notably in certain aspects of banking statistics and in the analyses of statistics regarding national income), Canadian statistics are in advance of U.S. statistics in such fields as employment statistics, judicial statistics, the taking of an annual census of production, and most of all in the consolidation of statistics under a single control, which greatly facilitat comparisons between one statistical field and another and promotes comprehensive treatment of the general economic situation. The latter advantage is decisive. Indeed, it has led the Head of the Economic and Financial Section of the League of Nations, who has exceptional opportunities of comparing the statistics of different nations, to state that upon the whole "Canadian statistics are the best". In so far as this is the case, it is largely due to the study of such documents as the Macmillan Report, the examination of the ideas of the best minds of other and older countries and the facilities our legislation offers of putting those ideas into practical operation in a form suited to the special requirements of the economic and financial structur in Canada.

As just stated, the recommendations of the Macmillan Committee with regard to information and statis tics represent what is considered desirable in Great Britain in the face of the present world-wide emergency. We may

now proceed to consider how far we already meet these requirements and how far they include statistics that are still lacking in Canada, dealing with the recommendations (which extend from paragraph 409 to paragraph 423 of the Committee's Report) paragraph by paragraph:

<u>Paragraph 409 - Monthly Returns of the Clearing Banks</u>

On the whole the statistics furnished monthly by the Canadian chartered banks correspond fairly well with the items mentioned in this paragraph. The "true daily average" of the cash items suggested as desirable in Great Britain have hitherto been considered unnecessary in Canada, where all banks must report as of the last business day of the month, while under the British system the banks make a voluntary report showing <u>averages</u> of one particular day in each week of the month, different banks using different days and "window-dressing" so as to show large cash items on their particular days. (The Macmillan Committee estimate that this practice "has the effect of increasing the apparent cash reserves of the clearing banks by at least £20,000,000 over the true average figure" - paragraph 369). Do Canadian banks also "window-dress"? A statement of the daily average cash reserves held during each month would of course reveal it.

<u>Paragraph 410 - Classification of Loans and Overdrafts</u>

This paragraph recommends the institution of periodical statistics showing how the banks' money is being used, whether for "productive" industry, commerce, transportation and distribution, finance and insurance, agriculture, professional and personal service concerns, and private

convenience. There is nothing like this at the present ti in either British or Canadian banking statistics, but there is without doubt a wide and growing interest in the use mad by the banks of the money deposited with them, and the man in which loans are divided among the various types of enterprise.* Thus the sums shown in columns 13, 15 and 20 on the assets side of the monthly statement ("call and short loans in Canada", "other current loans and discounts in Canada" and "non-current loans", respectively) might periodically, perhaps quarterly, be divided as follows:-

loans to Governments and municipalities,
loans to agriculturists,
loans to lumbermen, pulp and paper,
loans to manufacturers,
loans to transportation and communication agencies,
loans to wholesale and retail traders,
loans to professional and personal service concerns,
loans to financial concerns,
other loans.

N.B. - The suggestion as to the segregation of loans above made need not pertain to the monthly bank statement; the figures can at any time be collected under the Statisti Act and published in the Monthly Review of Business Statist

Once such statistics had been set up, their periodic repetition would afford comparison that would greatly facil ate determination of the current trend of Canadian business.

It may be added that the Canadian Bank of Commerce has from time to time reported the distribution of its investments. The classification of loans is made on the following basis:

1. Governments and Municipalities.
2. Public utilities, insurance companies, trust companies and automobile finance companies, etc.
3. Farmers and ranchers.
4. Grain, flour, meats, etc.

*It is true that an analysis of the advances made to certain types of businesses between Oct. 1929 and March 1930 appears on page 298 of the Macmillan Report, but this was made ad hoc.

5. Manufacturers:- Agricultural implements, iron and steel, mining, automobiles, textiles, wearin apparel, etc.
6. General stores and sundry wholesalers and retail ers.
7. Lumbering industry, including pulp and paper.
8. Contractors, builders, etc.
9. Call loans, loans on security houses, underwriters, etc.
10. Sundry dealers and traders, and individual customers of the Bank throughout the Dominion.
11. Trade paper discounted, sterling and foreign bills of exchange purchased.

A kindred investigation not mentioned in the Macmill Report may be alluded to here as being from time to time asked for in Canada, on the analogy of the United States. In that country, owing to the local character of the banks, statistics of deposits and loans are available by state or other local areas, while such statistics are not available here because of the nation-wide character of banking institutions. Apart, however, from the difficulty of segregating business in this way in Canada and of classifying loans to institutions doing a nation-wide business, the statistics would almost certainly furnish fuel for sectional jealousies best left dormant. It is stated as one of the chief economic advantages of the Canadian bankin system that, owing to its nation-wide scope, money passes freely from any one part of the Dominion to any other, seeking and finding the most lucrative employment for the bank and therefore the most advantageous employment for th country in general.

Paragraphs 411 and 412 - Returns from the Other Joint Stock Banks and Returns from Other Institutions

There are no institutions in Canada quite correspon ing to those considered in these paragraphs, except the tw special savings banks of Quebec, which report monthly to

the Government. The loan and trust companies of the coun
also report annually to the Government. While Dominion loan and trust companies report in great detail, provinci. loan and trust companies make only very summary reports of the type shown on page 917 of th 1931 Canada Year Boo The provincial loan and trust companies now make voluntar reports to the Dominion Department of Insurance and might probably be satisfied to make fuller reports to an organization like the Dominion Bureau of Statistics, which is not concerned with administration.

Paragraph 413 - For... Balances and Foreign Asset

The foreign balances and foreign liquid assets of Canadian banks are dealt with in detail in the monthly bank report. It does not appear that any more information is required in respect of them.

Paragraph 414 - The Volume of Acceptance

Acceptance, i.e., bills of exchange accepted by the person on whom they are drawn, are not distinguished in Canadian business life from other evidences of indebtednes There is therefore no record of acceptances as such.

Paragraph 415 - The Volume of Cheque Transactions

The Macmillan Committee points out that the record of bank clearings is an inadequate measure of business transacted through the banks and is becoming more and more inadequate on account of the amalgamation of what were fo. ly separate banking institutions. Such amalgamation invol the settlement within the amalgamated institution of trans actions which were formerly "cleared" between the banks entering the amalgamation, so that cheques formerly "clear no longer pass through the clearing house. Some nine or t

years ago the Dominion Bureau of Statistics realized that a similar situation was arising in Canada, and took the matter up with the Canadian Bankers' Association. As a result, a record of the <u>volume of cheque transactions</u> at clearing house centres in Canada (also called bank debits was established as from the beginning of 1924, so that th record is now in its ninth year. The record appears in bulletin form monthly and is also published in the Monthl Review of Business Statistics. It is published by geogra ical areas in the manner suggested by the Macmillan Commi ("the districts chosen should cover areas comparable to those used in other industrial statistics"). The record should, however, be extended to <u>all</u> centres and not to c' ing house centres alone.

<u>Paragraph 416 - Monthly Bulletin of Statistics</u>

The Monthly Review of Business Statistics, publish by the Dominion Bureau of Statistics and now in its seven year, contains the banking and financial statistics of th Dominion, as well as a summary of all the more important statistics appearing monthly and bearing on the business situation in Canada.

<u>Paragraph 417 - The Balance of Trade</u>

Statistics of the balance of trade, including all the invisible items so far as they are ascertainable, are published annually by the Dominion Bureau of Statistics and are being improved as new information becomes availat Difficult problems are created in this field by the close business and social relations with the United States, - . example, the buying and selling transactions of Canadians on the New York and other U.S. Stock Exchanges and the

fluctuations in prices, dividends, etc.; bankruptcies on either side of the boundary involving losses on the other; amounts bequeathed by citizens of either country to citizens of the other, etc.

Paragraph 418 - The Census of Production

This is a business statistic of paramount importance. The British situation with regard to the census of production is sufficiently described by the Committee in this paragraph. In Canada, the Dominion Bureau of Statistics has taken a census of production in each of the fifteen years from 1917 to 1931 inclusive, and is now engaged in taking a similar census for 1932. In Great Britain the first census of production was taken in 1907, but the second "effective" census of production was taken only in 1924. Only two volumes of the report of the 1924 census had been published up to the time of the Macmillan Report, and these were published in June 1930 and April 1931 respectively; the preliminary reports of the British census of 1924 were published only between February 1927 and March 1928. As the Macmillan Committee states, "the delay in publishing the results of the 1924 census of production has been so serious that some of the results ..... will be of comparatively little value except to the economic historian." The results of the 1930 Census of Production in Canada are now complete; those of the 1931 Census are all but complete; and parts of the 1932 Census are available. In several important sections we have monthly records.

The Macmillan Committee recommends that from 1932 on, the Census of Production in Great Britain "should be biennial or if possible annual", and concludes by saying,

"It is indeed essential for sound judgment as to the trend of events that we should have accurate and up-to-date information as to the volume of the country's output and as to the change from year to year in the output per head of those employed." We have had this in Canada for each industry, each province and each city in each year since 1917.

<u>Paragraph 419 - The Volume of Wages Paid</u>

As compared with the situation described in this paragraph, we have in Canada from the Census of Production annual figures of the total wages and salaries paid in each of the mining and manufacturing industries and in each area. Supplementing these figures obtained from the employers, we have from the decennial census the total wages earned by each and every wage-earning person in Canada in the twelve months preceding the date of the census. These figures are analyzed in detail by occupations of the wage-earners and by areas. Our investigation includes the whole field of salaried workers, hitherto neglected in Great Britain. Further, we have 1911 and 1921 figures for comparison with those of 1931.

<u>Paragraph 420 - The Volume of Retail Sales</u>

As compared with the private investigation recently undertaken by the Bank of England, we have in Canada an <u>official</u> monthly index of retail sales, compiled and published by the Bureau of Statistics and classified according to the type of store and the type of commodity sold. This index of retail sales is now in its third year. Doubtless it will be possible to improve it in detail after all the results of the census of merchandising establishments, take

in connection with the decennial census of 1931, have bee
made available.

It may be noted here that the census of merchandi
is not mentioned in the recommendations of the Macmillan
Committee. The Bureau of Statistics took such a census -
almost the first of its kind - in 1924, but the results
this pioneer experiment, though interesting and useful,
were not entirely satisfactory. However, [illegible]s just remark
- a very complete census of all merchandising and service
establishments was repeated in 1931-32 and most of the
preliminary results are now available.

<u>Paragraph 421 - The [illegible]gate and the Distribution of [illegible]</u>

The statistics of profits recommended by the Macmi
Committee are unquestionably a weak point in the Canadian
statistical system. While it would be possible to get
certain figures of this kind from the columns of the dail
and weekly press, and while we already get bank profits
from the Canadian Bankers' Association, the most satis-
factory source of such statistics is unquestionably the
reports to the Income Tax Branch fr[illegible] all corporations
liable to pay the corporation inco[illegible]. A further
suggestion in this connection is made later on.

<u>Paragraph 422 - The Value of Capital Construction</u>

In Canada this field is covered by the Bureau of
Statistics' record of building permits and the McLean
Building Reports' record of construction contracts awarded
The latter divides buildings and engineering enterprises
into eighteen classes, facilitating a considerable amount
of analysis. Statistics of over 4,000 establishments enga

in the manufacture of building materials are of course available annually from the Census of Production. A division of the annual Census of Production devoted to construction was discontinued some time ago owing to the amount of labour which it involved, but recommendations for its re-establishment have been repeatedly received.

Paragraph 423 - Co-ordination of Statistical Work of Different Departments

This very important object is attained in Canada by the centralization of statistics under the Dominion Bureau of Statistics, and by the regulation under the Statistics Act by which the Dominion Statistician is instructed to "sit in with" all Departments collecting statistics of an administrative character, so as to assure that collection methods shall be in harmony with the gener statistical scheme. Conversely, in the planning of comprehensive investigations like the decennial census, the Bure secures the co-operation of the officials of other Departments (e.g., the Department of Agriculture and the Department of Labour) in order to ensure that the statistics resulting from the census shall be of the greatest possible use to the administrative work of these Departments. This includes Provincial Departments; in the Census of Productio the Bureau works in close co-operation with 47 such Departments, sharing collection and compilation and pooling all results in a series of Dominion-wide reports.

From the foregoing analysis, which should be read in conjunction with the corresponding paragraphs of the Macmillan Report, it is evident that the Canadian statistic

system is more complete than the British in respect of financial and economic statistics. At the same time, it i far from perfection, apart altogether from the specific omissions that they have shown incidentally in the foregoing. It will be advisable, therefore, in Part II of thi memorandum to review the programme to which the Bureau of Statistics has been working in respect of the Statistics of Finance in general.

Part II - Statistics of Finance

The statistics of Finance may be discussed under th broad headings: I. Public Finance; II. Other Finance; and III. General. A summary of detailed plans which have been drawn up in the Bureau of Statistics is as follows:

I. Public Finance

Public Finance embraces (1) Dominion (2) Provincial and (3) Municipal Finance, including under each: (a) Rev ues (b) Expenditures (c) Assets (d) Liabilities (e) Debt. The ground has been already well broken, the Bureau having a small Branch on Public Finance. The inherent difficulty lies, of course, in the fact that the Dominion and Provincial Governments and the several thousands of municipal authorities each have their own organization and method of accounting. The statistical solution lies in agreement upon a series of standard classifications that will follow the same principles throughout, and that without interference with local requirements will permit uniform re-arrangement of the various items, with comparisons and homogeneous summations. The Bureau of Statistics has drawn up these classifications in detail and has for some time employed them to a certain extent in the field

of Dominion and Provincial finance. It is desirable, however, to have the methods improved and assented to in principle by (a) the Provincial Governments concerned, and (b) the Provincial-Municipal authorities concerned. This is now in train, as a result of a discussion at the Dominion Provincial Conference of Premiers in February last, and need not concern us further here. A conferenc of Dominion Provincial finance officials is being held in the Bureau in September next.

II. Other Finance

Currency and Banking.- The monthly bank statement and the monthly currency statistics of the Department of Finance are of course, the foundation of these statistics. The enlargement of bank deposit statistics and the breaking down of the statistics of loans have been already recommend

(1) That an annual report be made by the banks on the general lines of the Industrial Census, i.e. showing investment in plant, employees, salaries, wages, miscellaneous costs of operation, etc. The annual reports of the banks to their shareholders render a certain amount of these materials in this mode. In addition the two following suggestions are made available, and they are made the basis of a partial summary in the Canada Year Book as to profits and dividends paid, but the figures are not uniform or comprehensive in scope.

(2) That at as frequent intervals as possible the monetary side of the equation of exchange, including the amounts and velocity of circulation of currency and credit documents should be calculated, with differentiation of the transactions effected (as much as possible a la Keynes).

Loan and Trust Companies. - The statistics of Domini

companies are brought together in the Insurance Departmen but this work should be extended to include Provincial Trust Companies, which are much more important in the aggregate than the Dominion Companies. In general the figures should follow lines uniform as to scope with thos above suggested for the Banks (i.e., as to annual reports

<u>Insurance</u>. - In co-operation with the Departments of Insurance (Dominion and Provincial) the statistics of insurance should be brought within the same purview as above suggested. This, of course, does not involve the disturbance in any way of the existing records of compani maintained for administrative purposes by the Insurance Departments; the erection of a co-ordinated statistical superstructure thereon is the objective.

<u>Interest Rates and Exchange</u>. - The Bureau maintai an index of interest rates based on Ontario and Dominion bonds, the former going back to 1900, and the latter to 1919. While these are adequate to show the trend in the interest rate on long term funds, (i.e., the cost of mone there should also be established a permanent record of mortgage interest rates, also one of bank rates, which should include call loan rates and other loan and discou rates. See chapter on interest rates in the <u>Cost of Livi Report</u>,1915 (Vol. II.) and the materials which the Burea is at present assembling for the Banking and Commerce Committee of the House of Commons.

<u>The Census</u>. - Mortgage indebtedness as recorded decennially by the Census, should be extended to urban mortgages, and the statistics should be otherwise improve

III. General

Contingent to statistics of finance may be consider[illegible] such operations as to the analysis of the international tr[illegible] balance from year to year, and the computing of the Nation[illegible] Wealth and Income:

The Balance of International Payments and Capital Movements. -

Statistics showing the balance of international payments are being given increasing attention as a source of indispensible information connected with a nation's economic and financial standing. This information is vital to a proper understanding of trade relations, exchange fluctuations, movements of capital to and from abroad, the significance of tourist traffic, the incidence of interest payments, and so on. It throws light on numerous problems which daily confront the statesman, economist, statistician and informed business man. The United States Government has a special division of twenty-odd clerks under three economists whose function is the collection of statistics relating to the balance of international payments and kindred statistics. The League of Nations issues a special annual report on the subject. In Chapter V of the Macmillan Report, Sec. 8, pages 179-180 specific recommendations are made for more complete statist[illegible] relating to the British Balance of International Payments, and their importance is emphasized.

Statistics of the Balance of International Payments and of Foreign Capital Investments in Canada are issued on an annual basis by the Internal Trade Branch of the Bureau of Statistics. But while a great deal of work has

been put on these data and the results have been of increasing value, they have suffered from the fact that only temporary staff has been available for a study which, owing to its ramifications, intricacy and scope, requires constant and keen observation and analysis. Many substantial improvements, therefore, which could have been made, have had to be postponed from year to year, and the proportion of estimation in the statistics is still much too large. Several invisible items such as marine insurance, commissions, payments for fishing privileges in Canadian waters, etc., have not yet been investigated. Further study of the following items is also needed: Freight payments, advertising, bequests, bankruptcy obligations.

It is in the matter of capital statistics, however, that most remains to be done. Hitherto, estimates of yearl changes have been based on partial data from investment houses, but the only means of securing adequate information on interest and maturity payments and on the movement of capital into and out of Canada, is by the establishment of a comprehensive set of corporation records supplemented by returns from investment houses, brokers, etc. Considerable progress has been made in setting up such records. This year a monthly return of purchases and sales of capita secured from investment bankers, stock exchanges, banks and other financial agencies, has been established. When developed, this should show not only the total figures of movement but also the various group constituents of the movement, including new issues, re-sales and repurchases of securities, etc. A comprehensive survey of the whole field will include:

1. Investment of British and Foreign capital in Canada. Yearly changes in same. Classes of investment both as to type of security and type of corporation or government.

2. Interest and dividend payments on same in Cana and abroad.

3. Situation as regards branch plants in Canada.

4. Information to show the amount of bonds payable in New York, London, etc., and also the amount payable in New York funds held by Canadians.

5. Data on Canadian investments abroad.

6. Monthly purchase and sale of securities by Canadians abroad and by foreigners in Canada.

National Wealth. - An annual study is made by the Bureau of Statistics on the inventory method. While thi is not altogether satisfactory, it is difficult to improv by other methods; the Probate method, for example, is not feasible in Canada. The Australian Experiment of a Census of Wealth during the war might be considered, but except in times of emergency such a Census would not appear to yield results commensurate with its cost and other difficulties.

Income. - A detailed study of the National Income should be made (and kept up-to-date) along the lines of t studies of King and others in the United States, and thos of Stamp, Bowley, Flux and Colin Clark in the United Kingdom.

Income Tax Statistics. - As supplementary to the above, much fuller analyses of Income Tax Statistics shou be attempted. This could most readily be done by the use of the punch card method. When the Income Tax Branch of the Department of National Revenue was first set up, it was suggested that a card should be punched for each retu

and transferred to the Bureau of Statistics for compilation; the tabulations to be supplied to the Income Tax Branch under the same arrangement as presented with regard to immigration with the Immigration Department. The scheme was tried out but was abandoned owing to the state of flux in which the organization of the Income Tax Branch found itself in the opening year of its work. The suggestion, however, is essentially sound. It would yield not only the statistics that are desirable for administrative purposes by the Income Tax Branch, but many other important analyses which are of interest from the standpoint of general finance. A detailed memorandum on this suggestion is available in the Dominion Bureau of Statistics.

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ROYAL COMMISSION ON BANKING AND CURRENCY

A D D E N D A

INDEX

	Page
Supporting Document re Central Bank, submitted by Acting Premier, Prince Edward Island	1
The Trades and Labour Congress Brief	10
Memorandum submitted by Manitoba Pool Elevators Limited, Saskatchewan Co-operative Wheat Producers Limited, Alberta Wheat Pool	15
Statement submitted by G. A. Elliot, Professor of Political Economy, University of Alberta	22
Memorandum prepared by Special Western Interprovincial Committee	37
Memorandum - W. Russell Maxwell, Dalhousie University	45
Submission by G. G. Coote, M. P.	47
Montreal Board of Trade Memorandum	6[illegible]
Special Session on Exchange and Statistics	6[illegible]
Memorandum by R. E. Knight, Manager, Foreign Exchange Department, Bank of Montreal	106
Brief, British Columbia Bond Dealers Association	107
Lethbridge Board of Trade Brief	139
Farm and Ranch Review - Observations -	157
Memorandum submitted by J. A. Barrette, M.P.	168
Investment Bankers' Association, Supplementary Memorandum	173
The Town of Mimico Brief	185
Memorandum re Municipal Finance, submitted by Horace L. Brittain	190
The Canadian Chamber of Commerce Brief	195
Observations with regard to Returns at present required from The Canadian Chartered Banks	199
The Dominion Statistician Memorandum re Canadian Statistics	217

A D D E N D A

A Supporting Document re Central Bank to be Appended to Brief Submitted by the Acting Premier to the Royal Commission on Banking, Charlottetown, Prince Edward Island, August 31st, 1933.

A Central Bank, which of necessity must be a banker bank, should act as a depository for the banking reserves of the country. It is doubtful, however, if any noteworth economies of centralization could be secured by such a move in Canada, as the reserves of our ten chartered banks are already highly centralized. In connection with this function the central bank should bear the cost of clearanc and thus relieve the public of the onerous exchange charge on cheques now made by the commercial banks, which has bee referred to in the main brief.

A central bank, we believe, could take over the duties of a fiscal agent for the Canadian Government without causing undue difficulties by way of re-adjustment. In so far as the Government now has to pay the chartered banks for this service, it is possible that some saving might be achieved by having its own agent, a non-profit-making organization, do the work.

In respect to the matter of issuing notes, a centra bank should take over the note issue of the Government and possibly that of the chartered banks also. Any revenue derived from the circulation of central bank notes in place of Dominion notes ought to be turned over to the Government, but supervision of issue should

remain with the central bank as this would remove any danger arising from political control. Regarding the privilege of note issue now enjoyed by our chartered banks, it is difficult to state definitely whether or not this function should be assumed by the central institution. In countries where there is any doubt as to the solvency of individual banks, the issuing of note ought to be placed in the hands of a responsible central agent. In Canada, however, the strong liquid position of the commercial banks renders undue caution in this regard unnecessary. Furthermore, the banks have a vested interest in note issue, and, from one point of view, it seems decidedly unfair to deprive them suddenly of that particular source of profit. However, in the public interest, it may well be asked why that means of revenue should be allowed to remain in private hands; would it not be preferable to turn it over to the central bank an let the public get the benefit.

The Canadian bankers contend that the removal of the note issuing privilege would necessitate the closin of many branch banks, especially those in pioneer districts, owing to the fact that they would be forced to keep central bank notes, an expensive form of currency, as till money in place of their own notes, which are more or less costless paper. The point is well taken, but the argument loses much of its weigh insofar as the ready availability of central bank notes would permit the member banks to function with a relatively small amount of idle cash on hand. On this particular point we hope the Commission has received sufficient information from other sources to enable

it to settle the controversy.

In approaching the topic of the part a central bank could play in controlling the expansion and contraction of credit in this country, it is essential to note, that, under the provisions of the Finance Act, Canada already has part of the machinery of a central bank. The Finance Act, passed in 1914 as a war measure and made permanent in 1923, provides that the commercial banks may take certain securities to the Department of Finance and thus obtain Dominion notes. The banks then either use these government notes as part of their legal reserve or as a means of issuing their own notes on a dollar for dollar basis.

The administration of theFinance Act is controlled by theTreasury Board; a political body, the members of which usually do not claim to be experts in matters of currency and credit. They charge a stipulated rate of interest to ba nks presenting eligible paper somewhat after the manner in which a central bank re-discounts paper offered by member banks, but there has been no conscious effort on the part of the Treasury Board to control the amount of borrowing by commercial banks through adjustment of the discount rate.

x According to one authority, the maladministrati of the Finance Act was responsible for an unhealthful expansion of credit during 1927 and 1928, with the result that Canada unofficially slipped off the gold standard in 1929. In any case, the fact remains that there has

x C. A. Curtis Credit Control in Canada. Proceedings Canadian Political Science Association 1930.

not been a definite policy of currency and credit control in Canada. There has been no systematic attempt to carry out such a program by either the Treasury Board or the chartered banks in whose hands the power of credit creation and contraction now largely resides.

It has been suggested that the monetary machinery created by the Finance Act should be taken over, improved and administered by a central bank, with a view to controlling the amount of currency and credit outstanding according to the needs of the industry and trade. Despite the apparent merits of this proposal, it has many opponents who contend, and not without reason, that a central bank could not exercise the degree of control over the monetary situation which its sponsors claim. The chief arguments of those opposed to a Canadian central bank are as follows: In the first place, the chartered banks are old, well established and powerful institutions, consequently, would pay little attention to the authorities of the new Bank if they attempted to give advice. In the second place the chartered banks have ample resources to meet the financial needs ofCanada for years to come, and would not be compelled to resort to a central bank for additional reserve, thereby rendering control through adjustment of the rediscount rate ineffective. In the third place, if the central bank attempted to force the member banks to rediscount through open market operations, that is, in this case, the selling of securities, it would find itself seriously hampered, if not absolutely forestalled, by non-existance in Canada of a suitable market for such transactions.

Let us examine those objections. It is undoubtedly true that a newly established central bank would lack prestige which could only be developed through actual successful operation for a period of time under the guidance of eminent bankers and financial experts. This handicap, however, is of necessity only temporary. Regarding the impotency of the bank to exercise any control through manipulation of the rediscount rate, one may well doubt the validity of this contention owing to the fact that the banks deemed it necessary to resort to borrowing under the Finance Act during the boom period in the "twenties": (1927-1929).

The last objection, based on the absence of a well developed money market in Canada, is indeed a weighty one. Without recourse to a ready money market a central bank is in a very weak position when it desires to control credit requirements. It has been claimed that a period of half a century would be required for the building up of a money market in Canada suitable for open market transactions. Frankly, such a view may be correct, but, at best it is a mere matter of opinion. Those of us who expect prosperity to return and who have faith in the future of our country, hesitate to prophesy so boldly and pessimistically regarding the development of Canada industrially, commercially and financially. The United States did not have a well developed bill market in 1914 when the Federal Reserve System came into operation, but overcame that difficulty within a few years. Why not a similar development in Canada?

In view of the great uncertainty prevalent in

financial and commercial circles caused by fluctuating exchange rates, it is highly desirable that steps be taken to stabilize the Canadian dollar as far as possible. If a central bank, empowered to deal in foreign exchange, were established, we feel that it could assist materially in overcoming this difficulty. It should be empowered to buy and sell dollars and other currencies in much the same manner as the Bank ofEngland uses its stabilization fund to maintain the pound within a narrow range of variation.

Furthermore a Canadian central bank would be in a position to co-operate with the central banks of other countries much more effectively than our ten competing chartered banks can under present circumstances. There is undoubtedly a certain uniformity of policy among our present commercial banks which is promoted largely through the Canadian Bankers' Association, but a central institution at the head of our financial system would be able to decide upon a course of action much more promptly than the members of a competing system acting jointly. Furthermore, a central bank would command more respect, would enjoy more prestige, than a number of independent banks.

From the standpoint of international co-operation a central bank in Canada could assist in overcoming the so-called "international dilemma" in central banking. By way of illustration, suppose the central bank in one country desires to curtail the expansion of credit by raising its rediscount rate, it finds that the increase in rate causes a flow of funds from abroad which result nullifies

the central bank's action. On the other hand, if the rate is lowered in order to encourage the internal expansion of credit funds tend to flow abroad when earnings are larger. In the absence of a world bank to control such situations, the most effective arrangement is co-operation among the central banks of leading countries. Canada, as a great and growing commercial nation, should be equipped with the necessary machinery in the form of a central bank to act jointly with similar institutions of other countries in respect to this problem.

Owing to overgrowing burden of public debts and the increasing complexity of governmental financing, the time has undoubtedly arrived when it is essential to establish some form of organization more or less perman ent in character to give expert advice to the government in matters of finance. This is especially desirable in a "young" democratic country like Canada with its frequent changes of governmental control under the party system. This function could be executed to advantage by the staff of a central bank. In fact, with their comprehensive knowledge of financial conditions nationally and internationally, it would seem that the officers of such an institution could perform this task more satisfactorily than any other body.

In addition, the central bank could conduct economic research on a large scale and therefore be in a position to furnish important information not only to the government and to the member banks but to the public as well. In the future more attention must be given to economic planning

if we are to avoid a repetition of industrial and commerc stagnation such as that experienced during the past three years.

We by no means contend that a central bank for Cana is to be looked upon primarily as a cure for the present depression. Rather, it is to be regarded as an instituti founded for the purpose of consciously controlling the currency and credit conditions of the country in the interests of the public as a whole, not for the benefit of any particular class. Though realizing the many important functions which a central bank could perform, my desire is to stress the fact that one of its prime objectives should be the controlling, as far as possible, of extreme fluctuations in the price level and thus avoiding or at least greatly mitigating the severity of business depressions by taking <u>timely action.</u> While recognizing the handicaps under which a newly established central bank in Canada would operate, there do not seem to be any permanently insurmountable obstacles in the way of its successfully achieving the purpose for which it would be founded. Conscious, systematic credit control is highly desirable in this country, and, since neither the Treasury Board nor the chartered banks have seen fit to assume this responsibility and show no indication of doing so now or at any time in the future, it seems only reasonable to contend that a central bank, which could perform this function to greater advantage than any other institution, should be established in Canada at the next revision of the Bank Act.

In conclusion, we wish to emphasize the point that,

in the event of the establishing of a central bank in this country, it should be absolutely immune from political influence on the one hand and control by the commercial banks on the other. In other words, those responsible for the administration of the bank ought to be free to pursue a policy unhampered by political pressure or coercion by private financial interests. The setting up of such a body is indeed a difficult task. Nevertheless, if sufficient remuneration were offered and reasonable tenure of office assured, persons with adequate training and a sense of responsibility to the public should be attracted to central banking as a profession. If a central bank were established in this country, vested with the powers outlined above, and placed in charge of such a body of officials, we feel that it would constitute an important step towards the perfecting of our already, in many respects, admirable banking system, and would be in the best interests of this Province and the entire Dominion.

Respectfully submitted,

W. J. P. MacMillan,

Acting Premier for Commi...

THE TRADES AND LABOUR CONGRESS OF CANADA

OTTAWA, ONTARIO,
September 12, 1933.

To the Royal Commission on
Banking andCurrency,-

Sirs,-

The banking system and the manner in which its functioning is reflected in regularity of employment an in the orderly development of the country is of no less importance to the wage earners than to any other group. While laying no claim to expert knowledge of the detail of banking practice, yet [redacted] do consider that our organization is competent to express views on some of the broad principles of the system and to place before you for sympathetic consideration a number of suggestions w without undermining the stability of the financial stru of Canada would, subject to proper methods being evolve to give effect to them, help toward the restoration of prosperity.

Before proceeding to deal with these it is perhap advisable to make clear on whose behalf this brief is presented and the authority for the statements containe therein. The Trades and Labor Congress of Canada is national federated body with more than fifteen hundred branches (trade unions) located throughout the [illegible] an breadth of thisDominion, which for the past forty [illegible] years has been recognized by governments and public bodies as the authoritative medium through which the organized workers give expression to their views on matters pertaining to Federal legislation and of similar

national interest. Its policies are decided from year to year at its annual conventions. It is a non-politic body, its membership being composed of men and women of different political beliefs and opinions. It should not, therefore, be confused with any political 'Labor' party whose membership is naturally confined to those of one particular political belief and in which membership others than wage earners are included.

The desire for a full investigation into the banking system of this country was first expressed by our organizations in a resolution adopted at the 1926 convention, which followed the crash of the Home Bank, involving serious loss to its depositors. Developments since that time have demonstrated that while the likelihood of any similar situation arising has been minimized, both through mergers of weaker banks with others having greater resources, and by the stiffening of government inspection of banks, yet the need for more fundamental reform is still as necessary.

Under existing legislation revision of the Bank Ac by Parliament is provided for at ten year periods, but with the rapidity of change in economic conditions, both nationally and internationally, we suggest that a shorter period is advisable.

Believing that the banking and credit system, controlling as it does the economic destiny of practicall the entire community, is in its nature and manner of functioning actually a public utility and that the priv banking system, as now constituted, though custodian of the people's money and savings, is not directly responsibl

to them for its action but works primarily for profit and dividends for shareholders, often with very little consideration for the general public welfare, the Trades and Labor Congress of Canada supports the principle of nationalization of the banking system.

As forward steps toward this end we support the establishment of a central bank, believing that this is essential to prevent the wide fluctuations of exchange rates and to bring under state control the power to extend credits commensurate with the required needs for the development of this country.

While we understand that the present Bank Act aims to limit interest rates charged to seven per cent, in practice this is not always so. The absence of penalties for charging higher rates and the ease with which compliance with this provision of the Act is overcome, shows the necessity of amendments thereto. The lowering of interest rates paid to depositors should be made to reflect itself in easier credit at lower rates than currently charged.

The stagnation of the building industry can be largely attributed to the difficulties experienced by prospective investors in securing mortgage money. Especially in the case of home owners this should be available at all times at low rates of interest and for much longer than the existing five year periods. As one means towards making money more freely available for this purpose we would suggest that trust and loan companies should be able to discount their mortgages with the proposed central bank or some similar government authority.

The manner in which trust and loan companies have developed their business along parallel lines to that of chartered banks prompts the suggestion that, under propo safeguards, chartered banks might be given the privileg of making loans to their customers for home building purposes, especially where the amount of the mortgage would not involve exceptionally large sums.

If the private banking system is to be retained steps should be taken to maintain a certain amount of free competition by the prevention of interlocking directorates which places the national control of credit in too few hands.

Loans to brokers for stock market purposes leads speculation and inflation of values and therefore shoul be either prohibited or more stringently regulated. Control also should be exercised over the speculative investment by banks in industrial concerns where the same is likely to result in over-capitalization.

The financing of public works undertaken or sancti by the Federal Government is today being retarded becau of the tax burden which the payment of interest inve To overcome this we suggest that where the public [illegible] would be enhanced by carrying out any public undertakin that it should be made possible for the Government to use its own credit by the additional issue of non-interest bearing certificates (New Currency) to the amou involved, subject to a percentage of this being withdraw from circulation each year proportionate to the decrease value of the asset created.

In conclusion: On the social side, employees

of banks should be given the right of association in organizations of their own choosing; the principle of collective bargaining in respect to conditions of employment established and fully protected and to provide means of amicable settlement of any disputes that may arise on such matters, the banking institutions brought within the jurisdiction of the Federal Industrial Disputes Investigation Act.

Respectfully submitted on behalf of the
Trades and Labor Congress of Canada.

Tom Moore, President,

P. [illegible] Draper, Secretary-Treasurer,

MEMORANDUM TO THE ROYAL COMMISSION ON BANKING AND FINANCE, SUBMITTED BY MANITOBA POOL ELEVATORS, LIMITED; SASKATCHEWAN CO-OPERATIVE WHEAT PRODUCERS LIMITED; ALBERTA WHEAT POOL.

The wheat Pools of Manitoba, Saskatchewan and Alberta are co-operative marketing associations, also operating elevator facilities, representing an investment of over thirty million dollars contributed by over a hundred and forty thousand members.

It is not the intention of our organizations to mak any representation to your Commission on the technical aspects of the inquiry you are pursuing. The scope of your inquiry has been broad enough, however, to include evidence dealing with the general condition of agricu in the Dominion, and we wish to submit a few facts ... serious situation of our members and Western far... gen...ly, engaged in the production of grain and other farm products.

While unprecedented crop failures, due to drought and insect pests, extending over wide areas have added materially to the distress of our agricultural community, the disasterously low prices of farm products have been the major factor in creating a crushing burden of debt, swollen by high interest charges, which is the outstanding feature of the depression affecting the lives of our members and their families.

Decline in Agricultural Revenue

The estimated gross annual agricultural revenue ... the three prairie provinces for the three years 1926, ... nd 1928, as given in theCanada Year Book, averaged $318,589,667 per year. In 1930, as compared with the

average of the three previous years, the value of agricultural production had fallen to four hundred and forty eight million dollars. In 1931 there was a further fall to less than three hundred million dollars, and in 1932 to slightly over two hundred and seventy million dollars. In these three years, 1930, 1931 and 1932, there was a shrinkage in the gross revenue of prairie farmers as compared with the three years 1926, 19[illegible] 1928, amounting to over a billion, four hundred and thirty-nine million dollars.

Contrary to general opinion, returns from other branches of agriculture were fully as unsatisfactory as returns from their grain, and producers made a desperate attempt to offset in some measure the shrinkage in revenue through low prices by increased production of grain. The acreage in field crops in the prairie provinces increased from thirty-six million acres, which had yielded gross returns of over six hundred and twenty million dollars in 1926, to over forty-two million acres in 1932. The gross returns in 1932 was slightly over one hundred and ninety-two million dollars. The

increase in acreage amounted to 16.3 per cent

revenue amounted to 69.1 per cent

This appalling loss in revenue, without any corresponding reduction in the fixed charges which the farmer has to meet or the prices of the goods he has to buy, has reduced tens of thousands of our most efficient and hard-working farmers to insolvency, although special legislation by our provincial governments and relief extended by Federal and Provincial authorities has enabl

them to stay on their farms, in which they have little or no equity. While much valuable evidence has been submitted to your Commission by farmer organizations and b others who have made a careful survey of actual conditions on our prairies, we regret that there was a dearth of testimony by individual farmers, due to their reluctance to disclose their financial conditions, and diffidence in airing their troubles before a public tribunal. We believe, however, that the general stagnation of trade in all classes of business depending on returns from the Canadian West is sufficient proof of the deplorable state in which Western agriculture finds itself.

Raising Price Levels

We suggest to your Commission as a self-evident fact that there must be a substantial advance in the level of prices received for agricultural products and a scaling down of debts, before there can be any hope of returning prosperity to the prairies or any substantial improvement in Canadian industry.

Intermediate Credits

The efforts of banking insitutions to provide facilities for agricultural operations on the same basis as commercial transactions by a system of short term credits have shown an inherent weakness in our financial institutions from the standpoint of agriculture. We believe that this defect in our financial system has been at least partly responsible for the twoo free extension of credit during periods of fair returns for farm products, followed by a drastic contraction of credit during periods of low prices.

Banks throughoutWestern Canada make practically

all advances to farmers on a promise to repay within three months, notwithstanding that in many cases the banker and the farmer know at the time the loan is made that there is little, if any, possibility of its being repaid within the period stated. Although in actual practice these loans may be renewed, the instability of operation forced on the producer by uncertainty as to the time of repayment and possible enforced realization is not conducive to sound farming practices; while in periods of credit contraction, enforced realization of these short-term credits, if at all widespread, not only depreciates the value of the security to the lender and the borrower but may disrupt the market for the whole commodity involved. We are confident that your Commission has given these facts due consideration and recognizes the need of an intermediate credit system other than that provided by private mortgage companies, to meet the financial requirements of Canadian agriculture.

Excessive Interest Rates

We do not consider it necessary to stress to your Commission, in view of the evidence submitted in Western Canada, the burden placed upon Western agriculture by high interest rates, and the practice followed by the banks of compounding interest every three months. While the Bank Act specifies the maximum rate of interest that may be charged, it does not provide any penalty for breach of this provision and we suggest for your consideration that adequate penalties should be provided for any breach of the maximum rate of interest provided by the Act.

ENCOURAGING FARM STORAGE

Canada's wheat crop reaches the world market normally over a period of twelve months following its

production, but seventy-five per cent of the grain marketed is delivered from the farm into interior and terminal storage within a period of three months from the time it is harvested. Owing to the demands of creditors the majority of farmers are obliged to deliver their crops as soon as possible after harvest, a smaller percentage delivering all or the bulk of their grain into storage and borrowing money against it, very little grain outside of seed and feed requirements being stored on the farm. There are other factors besides the necessity of turning the grain into cash which are partly responsible for the rapid movement of grain from the farm; greater economy in handling the grain direct from the threshing machine or the combine to the elevator; difficulties of hauling grain in winter months often over rough roads or through deep snow, and cost of granaries on the farm, etc. If there were unlimited markets for Canadian wheat and farmers could be assured after sowing their grain in the spring of harvesting a crop in the fall, the speediest possible delivery of their grain after threshing might be the most satisfactory method to follow. The situation now existing in the Canadian West, however, brings out the necessity for adjustment to present conditions. There has been an over-expansion of elevator facilities and the acquisition of otherwise unnecessary additional railway facilities to take care of a peak load condition, and there are in terminal, interior, and country elevators in Canada to-day approximately two hundred million bushels of wheat on which carrying charges must be paid, while thousands of the men who grew the grain have empty granaries on their farms and little or no crop from their year's operations. We believe that reserves of grain should be built up on the farms and suggest that

your Commission should consider whether the present powers of the banks to lend on the security of threshed grain are adequate, and if so what can be done to encourage an orderly flow of grain out of the practically free storage in the farmers' granary into the more costly storage of interior and terminal elevators.

Central Bank

The establishment of a Central Bank in Canada involves technical questions which our organizations do not consider themselves competent to judge, but it would appear from the evidence submitted to your Commission that a Central Bank; free of domination by the commercial banks, would be of considerable benefit to our own and the other industries of the Dominion.

Critics of our banking system declare that it is not in the best interests of Canada that ten large banks should be practically the sole arbiters of whether credit shall be free or restricted; that is, whether prices within Canada shall rise or fall. Ten private institutions interested primarily in earning profits for shareholders must, from time to time, find the private interests of their respective institutions in conflict with the welfare of the country as a whole; occasions when it may be in the interests of the banks to restrict credit, although at the same time the welfare of the country requires not a restriction but an expansion of credit; and vice-versa.

In all questions requiring international action, including stabilization of foreign exchange, it would appear that one central authority should and would provide more adequate and satisfactory co-operation with the central

banking authorities of other countries than can possibly be provided by ten separately owned and operated institutions. We, therefore, endorse for our organizations recommendations submitted to your Commission favouring the establishment of a Central Bank for Canada.

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STATEMENT SUBMITTED TO THE CANADIAN ROYAL
COMMISSION ON BANKING AND CURRENCY
by

G. A. ELLIOTT, PROFESSOR
OF POLITICAL ECONOMY,
UNIVERSITY OF TORONTO

1. A Central Bank

Economists in eastern Canadian universities, especially Professor Plumptre of the University of Toront and Dr. Curtis of Queens University, have studied the proposed Canadian Central Bank more thoroughly than the writer, who can hope to add little that is original to the discussion. Professor Hewetson of this department has already submitted a statement in this connection. This section, then, will be confined to a brief and therefore dogmatic statement.

1. Need for a central bank

It has become generally recognized that the short run profit motive does not always lead to appropriate control of the aggregate volume of credit within a country. In Canada advances under the Finance Act have in the past been made, for the most part, according to the wishes of the chartered banks who reasonably and legitimately seek profit and who do not and cannot be expected to take into consideration the effects of their operations in contracting or expanding the total volume of credit in the count. Moreover, even while Canada nominally adhered to an international gold standard, the provisions of this act nullified the effects on bank reserves of a flow of gold into or out of the country. In consequence, in our present banking structure there is no agency either conscious or semi-automatic which does or can implement effectively

any monetary policy whatever, whether it be adherence to an international standard or domestic management. Either a central controlling agency, which will hereafter be termed a central bank, should be established, or else the Finance Act should be repealed and adherence to an international standard made automatic by assuring unconditional convertibility of Dominion notes into gold or some foreign currency at a fixed price. The valuable facilities afforded by the Finance Act and the external monetary chaos which prevails at present are strong arguments from the long run and the short run points of view for adopting the first alternative.

2. Powers of the central bank

The central bank should be given adequate powers for controlling the volume of credit through control of the amount of legal tender available for the reserves of the chartered banks. It should be given power to engage in the purchase and sale in the open market of suitable types of securities, including foreign bills. It should be empowered to loan directly to the banks, to vary the rate charged on advances to the banks and to refuse such advances if that is necessary in the enforcement of its policy.

3. Personnel

It should have a special personnel separate from the Dominion Department of Finance. The management should include individuals with theoretical training and practical experience in banking who are not so intimately associated with either banks or borrowers that their motives may be open to suspicion. The management should

be freed from the danger of political removal or ignorant interference by providing for a long term of office. The writer doubts very much whether representatives of conflicting interests can be expected to reach compromise decisions which are in the public interest. A board so composed, however, might be able to agree upon the selection of persons to positions of control. The personnel problem is both important and difficult.

4. Legal restriction or administrative judgment

The problem of differentiating between those matters which should be regulated by statute and those which should be left to the judgment of the controlling authorities is a difficult one. In operating a new institution -- or rather an old institution in a new environment -- a wide margin of uncertainty must at first exist as to the quantitative effect of the control measures adopted, and the rapidity with which they will have their appropriate effects. Even when a considerable volume of experience has been accumulated a very wide margin must be left free for the exercise of business and administrative judgment. A rigid definition of powers, and a statement, in the very broadest terms, of the appropriate objectives of the central institution should probably be passed by Parliament, but detailed regulations as to the precise way in which the powers entrusted to the central bank authorities are to be used should not be embodied in the statutes.

5. Policy

The Commission, however, may give valuable and

influential advice as to the appropriate policy for the Canadian central bank. The documents collected last year by the Canadian Monetary Committee in anticipation of the Imperial Conference at Ottawa will, undoubtedly, be placed at your disposal. It will be unnecessary, then, to repeat in this statement the representations which the writer made at that time concerning Canada's general monetary policy.

6. Information

The central bank authorities should be provided with the fullest possible information concerning changes in prices, production, employment, interest rates, security prices, sales and issues, and bank deposits and loans, classified by type and geographical locality. This will necessitate the provision of a modest but expert statistical staff, and the closest co-operation with the Dominion Bureau of Statistics and the chartered banks. In particular the chartered banks should be required to make available to the central bank authorities, promptly and at frequent intervals, whatever information is relevant to the formulation of a central bank policy. It should be recognized that for some time at any rate one of the most important duties of the central bank must be to investigate the quantitative effects of the control measures which it undertakes.

II. Provision of a Tabular Standard for Deferred Payments

A tabular standard for deferred payments has been advocated by a long series of economists, among others, Scrope, Jevons, Marshall and Knibbs. In view of the unsettled monetary conditions in the external world and

lack of experience with central bank control under Canadian conditions, the writer has little hope that monetary stability can be achieved at once. There are signs at present in western Canada that certain sections of the borrowing and the lending public would swelcome any measure designed to diminish, to some extent, the risk of both borrower and lender in a period of unst[illegible] prices. Certain machinery and oil companies, for example, have adopted the device of varying the principal of debts in accordance with changes in the price of wheat. There is some hope, then, that some borrowers and lenders might voluntarily write into their contracts a provision for varying the principal and interest of debts in accordance with a price index, or series of price indexes, if the Dominion Government would undertake to compile and publish official indexes for this purpose. If the indexes were extended backward for a number of years there is even hope that [illegible] might [illegible] in some cases a basis for the voluntary [illegible] debts which would preserve both debtor and creditor equities in the prop[illegible] given as security for loans. It is not to be expec[illegible] that this method would be universally adopted withi[illegible] [illegible] of time but official regognition of the metho[illegible] under present circumstances, would materially hasten its adoption.

III. Sources of Friction Between the Banks and Agricultural Borrowers

The writer wishes, perhaps unnecessarily, to support some of the conclusions of Dr. D. A. MacGibbon, in the report of the Alberta Commission on Banking and Credit. This support is based on less formal observations made more

recently than 1922.

1. <u>Discounting.</u>

In the agricultural communities in Western Canada ther is a widespread dislike of the ordinary banking practice of discounting the note of the borrower. The borrower frequent wishes a round sum. He believes, moreover, that the practice of discounting is a somewhat underhand method of exacting a higher rate of interest than the rate of discount actually named. He has frequently an exaggerated notion of the actual difference between 8% interest and 8% discount. The task of allocating blame for this source of friction is a useless and thankless one. If the situation is to be remedied, either the borrower's aversion to the practice must be removed or the practice must be changed. The writer has discussed the matter with agricultural borrowers on more than one occasion and is convinced that the first solution is impossible. It may be that the bankers are equally convince in their belief that discounting is necessary. In that case a voluntary solution of the problem would seem impossible.

2. <u>Maximum interest rate.</u>

The agricultural borrower believes, probably with som reason, that the discounting process allows the banks legall and safely to avoid the intention of Clause 1, Section 91. of the Bank Act which fixes the rate that the banks can [illegible] [illegible]. The distinction between a legally recoverable max rate and a legally chargeablemaximum rate is too subtle to be readily accepted by the borrowing public. Either this clause should be deleted or a maximum chargeable rate should be enforced. This maximum rate might well be somewhat above that which the Commission considers reasonable and

should be reviewed and, if necessary, changed at sho intervals than ten years. It is argued, of course, that th imposition of a maximum rate, lower than that charged some borrowers at present, would result in normal times in a clo scrutiny of risks than a smaller total volume of loans to farmers. In an area of comparatively recent settlement, wh uncertainty is great and where banker and farmer alike are subject to waves of extreme optimism, this result probably would be desirable. Consequently this argument should be regarded as favoring the imposition of a maximum interest charge if it could be enforced effectively. The problem of enforcement would not be a simple one.

3. Frequent compounding of interest.

The process of discounting is intimately associated in the mind of the farmer with the present bank practice of drawing notes for three months, even when it is expected th the borrower will be unable to repay the loan for a much longer period, and of compounding interest at each renewal. The bankers, of course, state that the short period is necessary to safeguard the loan if the circumstances of the borrower should become less favourable. It would seem more reasonable to allow the banks to demand the security they d ed adequate at the time the loan was made so that the note might be drawn to mature at a convenient date. The freque compounding of the interest has a somewhat usurious appear even to a disinterested person and is resented by some farm even apart from the fact that it makes the cost of a give loan more difficult to compute and even somewhat uncertain The frequent renewals, moreover, must be costly to the banl and are most certainly costly to the farmer who, ordinarily,

is less conveniently situated with respect to his bank than is the merchant or manufacturer.

4. Agricultural advice by local managers.

In periods when the banks desire to increase th loans to agriculture, many farmers believe that encour ment to borrowers may be given most effectively by a reduction in the interest rate. In the past, advice t farmers by local managers to undertake operations involving additional borrowing has sometimes had disast rous results and has led to lasting ill feeling and dis trust.

5. General regulations.

Some hardship in individual cases seems to be occasioned by the interpretation by local managers of blanket orders issued from time to time with the purpos of discouraging specific types of loans. This difficult is inherent in the branch bank system but forms the basis for stories of injustice which grow in the telling. The banks should be encouraged to provide for reasonable interpretation of such orders. Occasional public statementsby bankers of their general policy might do much to destroy the feeling that action by head offices, of the offices of the bank superintend is often arbitrary and unreasonable.

6. A permanent bank commissioner.

The financial power of the local bank manager cannot easily be overestimated. Isolated cases of injustice are bound to arise. Moreover, there is little doubt that the banks have agreed, at least informally, to adopt certain uniform practices. Where such agreements exist, supervision in the public

interest is frequently desirable. The Commission will be in a position to decide whether the volume and importance of the complaints received are sufficient to justify the appointment of a permanent banking commissioner with power to investigate specific complaints.

7. Intermediate credit.

In the western provinces there is a need for agricultural loans for a somewhat longer period than the banks at present wish to make but shorter and sometimes smaller in amount than the ordinary loan on a mortgage or bill of sale. This need for "intermediate" credit arises in two distinct ways. In the first place a loan [illegible] or three years may be required to meet part of th[illegible] co[illegible] of clearing and "breaking" new land, or to begin or increase a herd of livestock, or for other similar purposes intimately associated with the conditions of pioneer agriculture. Secondly, there are certain areas in the western provinces which since settlement have proven to be unsuitable for cereal farming, in other areas poor crops or crop failures occur from time to time but, on the average, in the long run, farming is profitable. It has come to be recognized, in Alberta at any rate, that the former type of district constitutes a problem of settlement and rehabilitation, not a problem of credit. On the other hand, farmers in the second type of district will occasionally be unable to pay their loans at the [illegible] of the crop year. If they are to continue farming they [illegible] financed from one year to the next or for even longer periods. From a social point of view it would be more economical if the intermediate type of loan could be made by the chartered banks themselves, or by some institutions associated with them.

(Page 3[illegible] follows)

MEMORANDUM PREPARED BY SPECIAL WESTERN INTERPROVINCIAL COMMITTEE FOR THE ROYAL COMMISSION ON BANKING AND CURRENCY.

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The evidence laid before your Commission in Western Canada makes it unnecessary for us to go into details of the distressed economic and social conditions now prevailing in the three Prairie Provinces; but in order to furnish a base for the proposals contained in this memorandum, it is necessary that we review briefly the salient features of these conditions:-

There are two major factors in the situation;

1. The acute decline in agricultural prices.
2. The results of crop failures from natural causes in certain areas in the three provinces.

These two factors require separate consideration and different remedial measures. As thelatter is not a matter of finance, but of relief, we deal solely with the former and its consequences.

Data prepared by the Dominion Bureau of Statistics at Ottawa show that as between 1928 and 1932 the annual gross agricultural revenue of the three provinces fell from $843,153,000 to $273,738,000, the revenue of 1932 being thus approximately one-third of that of 1928. As compared with 1928 the cumulative loss in gross agricultural revenue over the four years in the three provinces amounted to $1,71[illegible],[illegible]13,000. The decline represents a loss of 67½ per cent in farm income; the western farmer today has only 33 cents of gross income for every $1.00 of such income in 1928.

That this decline in farm income is not due to

decreased production is shown by the record of yields, prices and values also published by the Bureau of Statistics. With 1926 - 100, the figures for 1932 are:

Manitoba: Price, 33.1; Yield, 78.3; Value 25.9
Saskatchewan: Price, 27.8; Yield, 93.1; Value 25.9
Alberta: Price, 31.3; Yield, 131.6; Value 41.2

These figures make it plain that, fundamentally, the decline is a price phenomenon, and not one of production.

As the declining farm income has failed to cover maintenance and operating costs and living expenses, debts have increased; taxes are unpaid; and farm equipment has seriously depreciated. In consequence the financing of agriculture has become exceedingly difficult, while indebtedness in a large and growing number of cases is in excess of the farm capacity to pay. Already about fifteen per cent of the farm owners are burdened with an indebtedness in excess of reasonable valuation of the production of their farms.

To the problem created by price factors for western Canada, there are added the factors of variability in conditions within the important agricultural regions and the considerable variability of production on the same farms from year to year, which affect the particular capacity at any given time to pay, and which therefore need to be considered with regard to financial contracts.

The condition of agriculture has, of course, vitally affected all our public and business institutions; and gravely menaced many social services. The fundamental problem, therefore, faced by the West, is the restoration of the farm income and the economic stability of agriculture.

A POLICY OF DEFLATION

It is generally agreed that agricultural prices lie at the root of the universal depression and that the first step toward economic recovery is to raise the level of agricultural prices. It should, therefore, be the policy of the Dominion Government to adopt measures designed to raise the level of agricultural prices to a point which would restore the farm income, and so far as necessary to co-operate internationally to that end.

REDUCTION OF DEBT

There are in the western provinces, however, many farmers who will not be able to repay their debts even with enhanced prices, because of the cumulative losses of the last four years, together with the accumulation of arrears of interest and other charges.

The ordinary process of liquidation of such debts must result in driving these people from their land, and vesting in the hands of their creditors large areas in the country and large quantities of unsaleable machinery and livestock. No adequate survey has been made to enable this Committee to determine just what percentage of farmers are in this position. The figures submitted by Professor Allen in his testimony before your Commission at Saskatoon indicated, however, that it is extensive.

This Committee believes that some solution of this problem must be evolved which will keep these debtors on the land and thus enable them to pay as much as, or more than, may be realised under the ordinary process of liquidation. We suggest, therefore:-

1. That the Bankruptcy Act be amended so as to provide facilities by which insolvent farmer debtors may secure cheaply and quickly a composition and extension of their debts, secured and unsecured, which will be binding on all their creditors when approved by the appropriate court.

2. That in cases where bankruptcy proceedings canbe avoided power be given to the Debt Adjustment Boards of the respective provinces to enable such adjustments and compositions in the matter of farm debts as in their discretion are fair and equitable.

AGRICULTURAL CREDITS.

There is a grave need existing in western Canada for credit for essential farming operations at a rate of interest commensurate with the earning capacity of the farm. Data submitted by the Government of Alberta in their memorandum presented to your Commission, with regard to the financing of binder twine, indicate the existence of this credit need and that it is not being met by the chartered banks, although the experience demonstrates that the advances come within the limits of sound banking. If, however, this form of agricultural credit is considered more hazardous than is consistent with commercial banking, we suggest the establishment of a credit institution adequate to the needs of agriculture in this respect.

It is true the Province of Manitoba had an unfortunate experience with rural credits, and that the Province of Alberta also ran into difficulties with a similar scheme. We believe, however, the changes made in the Alberta plan show conclusively that a sound and suitable source of credit can be established. We suggest the setting up of a separate

agricultural credit corporation which should operate on a non-profit basis, the capital structure of which would be made up by contributions from the Dominion and Provincial Governments, together with some contribution from the borrower, sufficient to ensure the necessary local co-operation. Credit from such an institution should be made available at the lowest cost as a matter of public policy.

BANKING PRACTICES.

Evidence submitted to your Commission indicated widespread dissatisfaction with certain banking practices, particularly with regard to interest charges and the making of advances repayable in three months. On these items we recommend:

1. That the Banks should be urged to loan to borrowers on terms of repayment likely to coincide with the realization from the venture for which the money was borrowed.

2. That as parliament intended Banks should not be permitted to charge a rate of interest in excess of seven per cent, that intention should be clearly expressed in an amendment to the Bank Act limiting the capacity and power of the Banks accordingly and imposing penalties for any breach or attempted breach of the restrictions so enacted.

MORTGAGE PAYMENTS.

In past years when crops and prices were good and a farmer desired to prepay his mortgage indebtedness, he was precluded from doing so because by the terms of the contract the payment was not due. This has had the result of placing some farmers today in danger of losing their

farms because of their present inability to pay. We suggest that provision be inserted in the Dominion Interest Act to the effect that in the case of all land mortgages the mortgagee must accept, when offered, prepayment of any or all outstanding principal and interest on any prepayment date upon the mortgagor giving three months' notice or paying a bonus of three months' interest.

ADVANCES ON SECURITY OF GRAIN ON THE FARM.

Eighty per cent of the grain marketed in western Canada is delivered from the farm into elevator storage within three months after harvest, although it takes the balance of the yearto find its way out of Canada to the final market. This rapid movement has caused an excess of investment in transportation and grain handling equipment, all of which is largely due to the practice of making farm obligations payable forthwith after harvest. The press ure of deliveries can be reduced if the banks will lend on the security of threshed grain on the farm.

We suggest that the banks be empowered and encouraged to lend to farmers on the security of their threshed grain on the farm, and appropriate amendments made to the Bank Act, if necessary. The risks of fire and theft should be covered by insurance to the end that the banks may have the maximum security on the grain.

PUBLIC FINANCING

Evidence was presented to yourCommission showing the cost of financing unemployment and drought relief. We respectfully urge that loans for such an essential public service should be made available at a rate not exceeding

one per cent over the discount rate of the Finance Department.

In view of the drastic decline in the revenue of the Provincial Governments, notwithstanding heavy increases in taxation, we submit that a voluntary, or if deemed necessary to accomplish the purpose, an arbitrary conversion of outstanding bonded indebtedness at a substantially lower rate of interest, should be undertaken on a national basis.

We believe that in the public interest it is necessary to create machinery for the purpose of co-ordinating to the fullest possible degree the process of public financing.

EXCHANGE

The importance of the problem of exchange is shown in the payment by the prairie governments during the last two and one-half years of $5,409,124 in exchange premiums on their bonded debts. This heavy drain on provincial finances has added materially to the difficulties of the respective governments. It is estimated that sixty per cent of the sum so paid was collected by Canadian holders of the bonds. We suggest that steps should be taken to prevent Canadian bondholders from demanding payment in other than Canadian funds, and that the buying and selling of foreign exchange be under the control of a Central Bank.

Respectfully submitted on behalf of the Committee.

J. I. Hull,

Members of the Committee.	J.F. Perceval	Edmonton
	M. Porter	Calgary
	R. H. Milliken	Regina
	P. McAra	Regina
	Prof. W.Allen	Saskatoon
	J. T. Hull	

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MEMORANDUM FOR THE ROYAL COMMISSION ON CURRENCY AND BANKING IN CANADA

- - - -

Sirs:

I wish to say at the outset that I think the chartered banks have, on the whole, served the people of Canada well. My criticisms of our monetary and banking system refer not so much to the part played by the banks as to that played by the Dominion Government. They center around the Finance Act, or rather that part of it which provides for advances to the banks at times when there is n national emergency.

My objections to this arrangement are, 1. That it undermines the foundations of the monetary standard, by permitting the expansion of the Dominion note issue without a ny increase in the bullion security behind it; ... when that bullion security is decreasing. There is no assurance, either, that this unusual procedure will be justified by fundamental economic conditions. 2. That it puts the management in thohands of the wrong people. Members of the Treasury Board have no special qualifications for problems of this sort; they change from time to time with the vagaries of politics and they may be influenced by other than economic considerations; while the Department of Finance is an administrative organization. 3. It holds out no hope for the development of a monetary policy. I may say that I do not by any means cherish the hopes that some people seem to do from the development of this. But I think it can contribute something towards the contro of our economic life. In any event I think it is going

to be tried - indeed it is even now being tried - and since the problem is international by its nature the effects of any monetary policy will be felt internationally. Canada should be prepared to play her part in all this; but at present we have no machinery.

Some of these objections would be met by the simple repeal of some sections of the Finance Act. But the Act was valuable during the crisis of the War and I believe some such bulwark should be present even in normal times to lend legitmate assistance to our banking institutions. I am thus led to favor the creation of a Central Bank, which would assume the functions now exercised by the Dominion Government under the Finance Act, while putting the management of the business into proper hands, and make possible, with the growth of knowledge and experience the development of a monetary policy. This bank would naturally take over the Dominion Government note issue, together with the assets held against it; it would act as the agent of the government in its financing; and undoubtedly develop various other functions as need and opportunity arose.

The financing of a Central Bank would not, I think, present any tremendous problem. There would probably be some apparent cost at least at first. I say nothing about these matters, or about the details of organization, since these problems can readily be solved, with the aid of the many models available, if the decision is made to establish the Bank.

(Signed) W.Russell Maxwell,

Dalhousie University,
Halifax, N.S.

SUBMISSION MADE TO THE ROYAL COMMISSION
ON BANKING AND CURRENCY BY G.G.COOTE, M. P.

Nanton, Alberta,
August 31, 1933.

The writer was a member of the Committee which prepared the memorandum submitted to your Commission by the United Farmers of Alberta at Calgary recently. I will therefore not attempt to deal with matters covered in their submission to you.

As thememorandum in question was prepared on short notice and as I was personally unable to be present at Calgary, I am taking the liberty of sending you my own views on certain phases of the financial situation in Canada.

In the concluding paragraph of the memorandum of the U.F.A., above referred to, it is stated that:

> "Until the power of dictatorship over our economic life now possessed by a small group of privately owned financial institutions has been ended, the development of a planned economy based upon the realities of an age of abundance must prove impossible."

I wish first of all to offer evidence as to the extent to which this power is possessed by a small number of privately owned financial institutions and how this power is becoming more and more centered in a few hands.

In the year 1900 Canada had 36 banks. Previous to that time there was no provision in the Bank Act for the purchase of the assets of one bank by any other bank.

In that year the Canadian Bankers' Association

was incorporated by Act of Parliament.

In the Bank Act of 1900 new sections were added providing that the Canadian Bankers' Association should appoint a curator for any bank that suspended payment in specie of any of its liabilities. It gave the Association power to make by-laws, rules and regulations respecting all matters relating to the curator and making of bank notes.

There immediately followed provisions for the purchase of assets of one bank by another bank, subject to the approval of the Governor in Council through the recommendation of the Minister of Finance.

Here was a fine machine for concentrating control in a few hands. Bank mergers began that year. I am not able to give you a list of bank mergers since that time. I would suggest that you ask the Department of Finance at Ottawa to prepare such a statement and also showing the paid-up capital of each bank that was merged and the capital of the continuing bank. It will show in almost every case a diminution of the total capital.

It will suffice for our purpose now to say that:

In 1900 Canada had 36 banks
1910 Canada had 28 banks
1923 Canada had 17 banks
1933 Canada had 10 banks.

During this time the Royal has absorbed eight other banks, the Bank of Montreal six, and the Bank of Commerce eight.

As a result of mergers -- one bank controls 28 per cent of the banking business of Canada, and three banks control 70 per cent of the banking business. Not only do they control the banking business of the country, the directors of those three banks control Trust Companies,

Mortgage and Loan Companies, Bond and Investment Houses, Insurance Companies, railways, public utilities, flour mills, bakeries, packing plants, steel mills, textile plants, tobacco factories, agricultural implement factories, pulp and paper plants, etc., in fact everything that is worth controlling.

Attached hereto is a statement marked Exhibit "A" showing some of the corporations controlled by directors of these three banks and the great number of directorships held by individual directors. This list is necessarily incomplete. It is not easy to secure the complete information. The list has been taken mainly from the Canadian Annual Financial Review and many corporations are not shown there. A few were added from Who's Who. A few years ago, an article in a Canadian magazine "The Country Guide," credited one of our bank presidents with having directorships in 145 companies.

Through interlocking directorates these men control the bulk of industry — through industry they largely control advertising -- through advertising they can control most of the press.

Credit is necessary in every business to-day. Bankers can put any company or organization out of business by refusing credit at a critical time. They may [illegible] credit to competitors of a company in which they are personally interested and force competitors out of business. Giving or withholding credit largely governs the volume of business which is being done.

Through their control of finance and industry -- the group of men already referred to exercise more power over the economic life of the people than any government.

They have power without responsibility which is generally attended with unfortunate results for somebody. Pages could be written showing the unsatisfactory features of this centralization of control in private hands. The [illegible] is not easy. I suggest two measures for your consideration:

First - That the Governor in Council appoint one-half of the directors of the chartered banks -- these men to be representative of our various economic interests.

In passing may I point out that although agriculture is Canada's major industry there is not so far as I am aware an agriculturist on any of our bank directorates.

The second suggestion is that no bank director should be a director of any other corporation.

Regardless of whether either of these suggestions is acted upon the fact that so much power now rests in the hands of a few banks is a very good reason for the [illegible] of a National Bank such as is urged in the submission of the U.F.A.

FARMERS' INDEBEDNESS

One of the greatest barriers to economic recovery is the terrific burden of debt carried by our farmers. Forty-five per cent of our people are on farms; until their purchasing power is restored economic conditions in Canada will not be good. In July, 1932, compared with 1926 price levels, wheat had fallen 63 per cent, farm products generally 52 per cent, while retail prices had fallen only 19 per cent. Interest rates, taxes, insurance premiums remained fixed. This ruined the purchasing

power of the farmer -- it also ruined his paying power. The result is, in many cases, three years unpaid interest has been added to the principal of his mortgage or other debt. But in September, 1932, when wheat was selling at 32 to 34 cents per bushel to the farmer in Canadian funds the Australian farmer was receiving 54 to 60 cents per bushel in Australian currency. These prices are at country shipping points in both cases. In both countries the price of wheat was on an export basis. The pound sterling was at a premium of 25 per cent in Australia while it was at a discount of approximately 25 per cent in Canada. Expressed in terms of dollars it was worth $6 in Australian currency and less than $4 in Canadian currency.

The result was that the debt paying power of a bushel of wheat in Australia was 75 per cent greater than a bushel of wheat in Canada -- while in March, 1932, the purchasing power of farm products in Australia was 40 per cent greater than in Canada. (Commons Hansard, November 24, 1932, page 1577, Revised).

There was no inflation in Australia but there was an arresting of the policy of deflation -- while deflation continued in Canada. In Australia the wholesale commodity price index remained fairly steady around 80 during 1931-1932, while in Canada it dropped from 80 to 63.

In Australia in 1931 interest rates on mortgages were reduced by 22½ per cent of existing rates. This meant that a rate of 8 per cent was reduced to 6.20 per cent. In Canada there was no reduction. The result, at a time when 1,[illegible]00 bushels of wheat would pay the

interest on a $1,000 mortgage drawn at 8 per cent in Australia, it took 2,200 bushels to pay the interest on a similar mortgage in Canada.

Many millions have been added to the farmers' debts because of the financial deflation as evidenced by the low value of the pound sterling for the eighteen months following September, 1931.

Had our currency been at par with the pound sterling last year, it would have added $40,000,000 to the value of our wheat crop alone. Had it been at par with Australia, it would have added eighty million to the amount received by our farmers for their wheat.

The official reason always given for keeping the exchange value of our currency at such a high level compared with sterling was that on account of the great volume of debt owed by various governments and corporations which was issued with the option of payment in New York funds, we must keep our currency as near par as possible with the United States dollar.

In other words, it was in the national interest to keep the dollar high compared to gold. Surely this furnishes sufficient reason for national action to reduce the rate of interest on existing obligations as well as for setting up tribunals to consider reduction in the principal of some debts.

Meeting our Foreign Obligation

In my opinion, foreign obligations are paid with exports. These exports bring us the same amount of foreign exchange whether our dollar is worth 100 cents or 50 cents in New York. We can meet foreign obligations

just as well whether our currency is at par or not. We cannot continue to meet foreign obligations if we bankrupt our producers through low domestic price levels.

Stability of the internal price level at a proper point is ten times more important than exchange rate stability and I hope the Commission will make a pronouncement on this point.

Just a Final [illegible] re Farmers' Debts

I notice by a Press despatch regarding the hearing before your Commission at Winnipeg that a representative of the banks stated "that the banks had suffered very large losses in western Canada."

The same statement was made before the Banking Committee at Ottawa in 1923. At that time I asked that the banks should furnish the committee with a statement showing just what these losses amounted to, in other words, produce the evidence. This was refused. If the banks are to continue to make this assertion, they should be required to produce the figures before your Commission. They should also be asked to explain how these losses occurred. They did, of course, suffer some losses, but they have also suffered losses in other parts of Canada as well. These losses as a rule have been due to inefficient management.

Banks are bound to have some losses in times of financial deflation such as we have experienced for the past three years. Their deflationary policy often destroys the value of the securities which they hold as collateral or of the assets on which the credit was based.

In times of stable business conditions there is no

excuse for many bad loans and the banks should be just as interested as producers in maintaining stable price levels. It would add greatly to the safety of their loans.

CREDIT FOR AGRICULTURE

Your Commission might very well consider the setting up of a National Land Mortgage Corporation which would have power to make advances against existing mortgages, such advance to be limited to 50 per cent of the value of the land provided that the holder of the mortgage would reduce the rate of interest to 4 or 5 per cent or whatever rate might be decided by the directors of such corporation.

Consideration might also be given to the establishment of a new system to furnish intermediate and short credit for farmers. In my opinion all farm credit could best be handled through one institution. This should be more satisfactory to both borrower and lender, but the lending body should be subject to national control.

If the Commission do not see fit to recommend some new system they might at least suggest that the whole matter of credit for agriculture be referred to a Commission on which agriculture and some of the provincial governments should have direct representation.

FINANCING OF INDUSTRY

Our system of financing industry should be radically changed.

The investing public have been swindled out of hundreds of millions through the sale of bonds of little or no value. In the formation of many companies, two classes of common stock, preferred stock and perhaps two

classes of bonds have been issued. The bonds and preferred stock being sold to the public to finance the [illegible] enterprise. Very often the control of the company was vested in one class of common stock which was held by a few promoters and which cost them nothing.

In my opinion the time has come when there should be set up a public corporation for the financing of industry, a sort of national investment corporation.

That the issuing of fixed income bearing securities such as bonds and preferred stocks be prohibited and that industry should be financed from the sale of one class of security, namely, shares of the capital stock, of one class only. Then every investor would have a voice in selecting the managing board of the company and the same return on his investment.

The Investment Corporation thus set up should be [illegible] power to control the capitalization of companies in order to prevent the creation of fictitious capital and to see that all the money subscribed was really used in the industry itself and not handed over to promoters.

Such a body would prevent the over-capitalization of industries such as has taken place so often in the last decade.

Perhaps the pulp and paper industry best illustrates the process which has been going on.

A few months ago, the Premier of the Province of Quebec was reported to have made the statement that the power, paper and pulp companies of eastern Canada with an original capital of $30,000,000 had within a few years enlarged and financed themselves into a capital of

$714,000,000. The Premier is reported to have added that in his judgment the value of that $714,000,000 was to-day not more than $25,000,000. And not only the private investor has been swindled through the purchase of these securities. The report of the superintendent of insurance for Canada, for the year 1929, shows that six life insurance companies held various stocks and bonds of the companies concerned to the nominal value of $14,000,000, and one insurance company alone held almost $10,000,000 of these securities. Some control is badly needed to see that the savings of the people (their hard earned insurance premiums) are not dissipated in this manner.

A recommendation from your Commission, as to the desirability of proper control to deal adequately with this problem would be highly appreciated by thousands of Canadians.

MUNICIPAL AND PROVINCIAL DEBTS

The problem created by both municipal and provincial government debts has undoubtedly been placed before you on many occasions.

I simply want to suggest that in the case of municipalities at any rate and I see no reason why the same rule should not apply to provinces, any bonds issued should be on the amortization plan, that is the principal and interest should both be retired by annual payments provided for during the life of the bond.

Hundreds of millions have been added to the debts of provinces and municipalities to pay for unemployment

relief. This is absolutely unfair to those bodies. They are not responsible for unemployment.

Under the constitution the Dominion Government has control of currency and coinage, banking and issuing of money, interest, tariffs, transportation, immigration, etc., in fact all the vital economic forces which determine the amount of employment for the people.

The Domibion should finance all unemployment relief.

AMENDMENTS TO BANK ACT

Supervision of Large Loans

It is generally admitted that bank failures have been caused by large loans. Some supervision should be exercised over the banks in connection with large loans of say more than $200,000. They should be required to have them approved by the central bank or Treasury Board or reinsured with central bank or other banks.

The central bank power to fix from time to time the cash reserves to be held by commercial banks.

Booms on the stock market are financed mainly on bank loans on stocks and bonds. To prevent these booms, banks should be prohibited from creating credit against collateral of stocks and bonds except within certain limits.

Section 138 should be struck out.

Municipalities should have the right to issue scrip up to a percentage of their tax levy. This section in my opinion prevents that being done.

Bank Returns to the Government

In addition to the monthly return now made to the government the banks should after their annual meeting make a return to the government showing:

1. Their total gross earnings from interest charges, from exchange and other operations and a detailed statement covering the disposition of such earnings including wages and salaries paid, and the amount written off for bad loans. If the bankers are as efficient as they would lead the public to believe they need have no hesitation to giving this information and their depositors are entitled to it.

2. Amount of deposits and loans by provinces.

3. The distribution of loans for various purposes -- agricultural and other industries -- loans against stocks, bonds, etc. (See page 176, Macmillan Committee Report.

4. Number of branches and where they are located.

5. The names, addresses and occupations of all directors and a list of firms and corporations of which they are partners or directors.

6. A list of all bonds, debentures or other securities held by them such as is now required from insurance companies.

FOREIGN BUSINESS

Our banks might very well be compelled to confine their operations to Canada. The bank statement for May, 1933, shows that one of our banks had 36 per cent of its loans outside of Canada. With a paid-up capital of $35,000,000, it had outside loans of $144,000,000.

From the standpoint of safety of depositors'funds, this is dangerous. A collapse of sugar prices, or a foreign revolution such as recently took place in Cuba might conceivably wreck a bank with foreign loans equal to 3 or 4 times its paid-up capital.

It has also been charged that in times when high interest rates were available outside Canada particularly in New York certain Canadian banks loaned too freely outside Canada and this resulted in drain on our gold reserves which put us off the gold standard in 1929.

<u>Overdrafts</u>

Our banks as a rule refuse to lend on overdraft even for a few days; they insist on having a note with a minimum charge. I think the Commission might consider some recommendation in regard to this practice.

DOMINION NOTES ACT

The Act as it now stands authorizes the issue of 50 million of Dominion notes against a twenty-five per cent gold reserve. An issue of 26 millions against certain railway securities and over that amount notes may be issued without limit against dollar for dollar of gold.

As gold is no longer intended for circulation and as our Dominion notes outstanding have probably not fallen below $150,000,000, in the last twenty years, this simply results in locking up $60,000,000 or more of gold which serves no useful purpose.

We have in Canada an extraordinary situation. Dominion notes can issue under the Dominion Notes Act ... against gold but Dominion notes without limit may be

issued under the Finance Act against various classes of securities, yet until recently under the terms of the Dominion Notes Act, notes issued under the Finance Act might be presented for redemption in gold.

I would suggest that the Dominion Notes Act be changed to allow the issue of Dominion notes without gold reserve;

That Dominion notes should not be redeemable in gold (in actual practice no currency is now redeemable in gold coins). Any currency becomes inconvertible whenever the people decide to exercise their right to convert.

Our Dominion notes should be inconvertible -- they [illegible] be legal tender money.

The amount of the notes should be limited only by the needs of commerce and industry, based on a stable commodity price level.

THE FINANCE ACT

This act was passed as a war measure in 1914. Evidently its purpose was to enable the banks to meet any demands that might be made upon them by depositors. It authorized the Government to make advances to the banks in the form of Dominion notes, against a large class of securities. It imposed no limit on such advances.

Handled intelligently it would have been a very useful piece of legislation but it certainly has not been handled intelligently. The Act made possible the great inflation of bank credit during the last years of the war and up to 1920.

It was also the basis of the inflation which we

suffered from during 1928 and 1929.

Had the administration of this Act been in the hands of a national bank which was charged with the responsibility of maintaining stable price levels, they surely would not have been increasing their advances to our banks in 1929 at rates of three and three-quarters to four and a half per cent to enable them to loan large sums at call in both Canada and New York.

On March 30th, 1929, the advances to Canadian banks under the Finance Act amounted to \$83,000,000. On the same date call and short loans on stocks, bonds and other securities were shown as \$267,000,000, and call loans elsewhere than Canada were \$293,000,000.

Surely it would be worth while to establish a national bank to administer the Finance Act intelligently, if for no other reason.

All of which is respectfully submitted.

(Signed) G. G. Coote.

([illegible] List referred to filed as Exhibit.)

MEMORANDUM SUBMITTED BY

THE MONTREAL BOARD OF TRADE

Montreal, September 14,1933.

My Lord and Gentlemen:

I have the honour, on behalf of the Montreal Board of Trade, to submit for your consideration the following c[illegible] with regard to the banking situation in Canada, which you have been commissioned to investigate.

It is the general feeling among the members of the Montreal Board of Trade that the last four years have [illegible] that our banking institutions are sound, and they view with considerable concern any proposals for radical changes.

As far as currency and note issue are concerned, the requirements of the country seem to have been adequately met. As to control of credit and stabilization of exchange, it does not appear that any control organization in Canada could have achieved more than was possible by the Dominion Government and the banks under the Finance Act. It does appear that in three respects changes might be made to advantage:

(1) The operations of the banks should be confined strictly to banking and should not extend to such other activities as buying and selling securities.

(2) There seems to be an opinion that some changes might be advisable affecting the relations of the Finance Department and the banks. For example, the functions at present exercised by the Finance Department might be put in charge of a banking

commission which would be independent both of the Government and of the banks.

(3) It is felt by many that interest rates are not flexible enough, but should be more in keeping with the rates prevailing in international centres, having in mind our large export business.

There is one feature of the present banking situation the trend of which the members of the Board view with considerable alarm, that is, the increasing extent to which the assets of the banks are being involved in Government financing. Among the assets of the banks are the following:

Dominion Government and provincial government securities.

Canadian municipal securities and British, foreign and colonial public securities other than Canadian. (The non-governmental items included in this list are not large and can have very little bearing on the rate of increase).

Loans to provincial governments.

Loans to cities, towns, etc., and school districts.

On the 31st December, 1913, the total of these items in the chartered banks of Canada was $67,637,000 or 4.38 per cent of the total assets of all the banks.

On the 31st December, 1931, these items had reached a total of $803,270,000, or 27.30 per cent of the total assets of the banks, and 41.7 per cent of the deposits by the public in Canada.

On the 31st December, 1932, these items had risen to $869,161,000, or 30.93 per cent of the total assets of

all the banks, and 47 per cent of the deposits by the public in Canada.

As at 31st July, 1933, the figures had further increased to $963,000,000, which was equal to 50 per cent of the deposits made by the public in Canada, and was equal to 34 per cent of the total assets of the banks.

Out of the total of $963,000,000, $648,000,000 consists of Dominion government and provincial government securities.

The increase in the total of government securities and loans in the last few years is largely compensated [illegible] a decrease in commercial loans. This means that [illegible]y of the depositors is being used to an increasing extent for governmental purposes and that much less for the needs of commerce, until a situation has now been reached where one-half of the deposits made by the public in Canada have been lent to the various governments, or invested in government securities. Under normal circumstances such a change might be considered an improvement in the position of the banks, as government loans and securities rank higher in the category of liquid assets of banks than do commercial loans, but as these government borrowings represent deficits in revenue and expenditure on non-productive assets, the time is not far off when such a position will be not without danger.

The Chairman of the Board's special committee, [illegible] has for some time been giving consideration to the matters covered by the reference to the Commission, will be glad, if requested, to attend at Ottawa to answer any questions explaining or elaborating the opinions expressed

in the foregoing.

I have the honour to be,

My Lord and Gentlemen,

Yours obediently,

(Signed) J. Stanley Cook

Secretary.

Parliament Buildings
Ottawa, Ontario,
September 15, 1933.

Special Session
on
Exchange and Statistics

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THE COMMISSION met at 2:30 p.m.

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THE CHAIRMAN: Mr. Knight, we want to complete our description of the existing banking organization in Canada by some account of the exchange department, of the method in which Canadian banks operate exchange, and we accordingly ask you to be good enough to give us a short descriptive account of that department of the bank's work. We have not taken this evidence in public, not because there is anything in it that we regard as especially confidential, but we closed our public hearings this morning, and in any event the topic is so technical as not to be of interest to the public. Will you first tell us what office you hold in the Bank of Montreal?

MR. R. E. KNIGHT (Bank of Montreal): I am Manager of the Foreign Exchange Department of the Bank of Montreal. It embraces all the foreign exchange operations of the bank in Canada and Newfoundland and certain operations in London and New York.

THE CHAIRMAN: I suppose the work of your department in the Bank of Montreal may be taken as typical of the working of similar departments in other banks in Canada. Have the other banks as extensive a foreign exchange department as you have?

MR. KNIGHT: At least four of the larger banks would have.

THE CHAIRMAN: Then we may take it that what you are going to tell us in regard to exchange is typical of Canadian banking methods?

MR. KNIGHT: I think so.

THE CHAIRMAN: I think Sir Charles Addis will be kind enough to ask a number of questions on which we should like your views.

SIR CHARLES ADDIS: I should like to take as our starting off point, Mr. Knight, the distinction between what you will agree is the present abnormal position and the normal position which in some form or another we hope may shortly be restored, and I would ask you to consider any questions that I may put to you from those two angles, first as regards what I may call the emergency or transition period, and secondly as regards the long period, with which of course you understand this Commission is mainly concerned.

MR. KNIGHT: Yes. Of course, the long period [illegible] would be based on a gold standard, or something similar, which will have a bearing on what I might say.

SIR CHARLES ADDIS: I agree. You are aware that there has been an indication of the general policy of your government in favour of the stabilization of prices in some form or another, which we may take to involve some form of metallic basis for the currency, and therefore not to tie down the form too tight, it would be some form of the gold standard or gold basis, and your answers would be based on that hypothesis. You agree with that?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: The first question I want to ask you is who are the dealers in exchange in Montreal and Toronto; that is, people who buy and sell exchange for their own account and carry a position in exchange?

MR. KNIGHT: Operations in this category are practically confined to the banks with possibly the addition of large corporations like the milling companies, which may take a position in exchange, but speaking generally, they are confined to the banks.

SIR CHARLES ADDIS: Are there any brokers?

MR. KNIGHT: Yes, there are six in Montreal and two in Toronto.

SIR CHARLES ADDIS: Are transactions executed through the brokers or directly through the dealers?

MR. KNIGHT: Brokers are employed for all operations between banks. These brokers do not operate for their own accounts but merely act as intermediaries.

SIR CHARLES ADDIS: And other transactions?

MR. KNIGHT: Any transaction the bank has with an individual or corporation is usually a private matter between bank and client. It is not a market transaction unless the bank is given by the client a firm market order.

SIR CHARLES ADDIS: Market transactions are carried on by means of brokers, and transactions between the banks and their clients are carried on direct?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: But not through the brokers?

MR. KNIGHT: Not unless a firm market order is given as clients usually require firm bids or offers from the banks.

SIR CHARLES ADDIS: In the purchase of sterling, for example, what does the bank do? If sterling cannot be acquired in the Montreal market, for instance, does he turn his attention to New York? What is the procedure?

MR. KNIGHT: First, the basis of the local rate is established by taking the latest New York rate for sterling and adding thereto or deducting therefrom the premium or discount on United States dollars in Canada, as the case may be. Bids may be made on this basis in the local market and if no sterling is forthcoming, it will be acquired in the New York market or United States dollars sold in London. This, in turn, involves the purchase of United States dollars in Canada or the sale of Canadian dollars in New York if the banker has not the United States dollars already on hand. Obviously, purchases and sales would not be made in the local market unless the rates obtainable are as advantageous as those procurable by arbitraging with United States dollars.Generally, we have a continuous flow of sterling q uotations from New York.

SIR CHARLES ADDIS: From your own branch there?

MR. KNIGHT: Yes, according to the state of the market there may be hundreds of wires a day or just a few. For United States dollars in Canada there is a fairly active market and rates are usually available from bids and offers in the market through the brokers.

SIR CHARLES ADDIS: Then with regard to London?

MR. KNIGHT: The closing of our market for United States dollars is cabled to London from which they build up their opening Canadian dollar quotation. Often firm over-night bids and offers for United States dollars are given which puts London in a better position to trade. All

important changes in the United States dollar rate in Canada are cabled as long as the two markets are operating. According to my experience, London prefers bids and offers for United States dollars rather than for sterling on a Canadian basis.

SIR CHARLES ADDIS: Why?

MR. KNIGHT: It is easier for them. In London themarket for Canadian dollars is limited and if the United States dollar rate is erratic, London has difficulty in establishing a trading rate for Canadian dollars unless they have some indication of Canada 's idea of the value of United States dollars.

SIR CHARLES ADDIS: Would you describe that as being an abnormal position? How does that correspond with what you might call the normal condition?

MR. KNIGHT: I would say it applies to both, because a fluctuation of one-quarter or one-half a cent in normal times is just as wide as say three or four cents in these times.

SIR CHARLES ADDIS: In normal times you get a much closer market in New York?

MR. KNIGHT: Yes, and our United States dollar rate to London would be very much closer than in abnormal times.

SIR CHARLES ADDIS: Does that amount to a triangular arbitrage? Is the process this? You have a surplus of sterling bills and with the proceeds of these bills you proceed to purchase dollars in New York and then finally with those dollars complete the triangle?

MR. KNIGHT: That is true to a certain extent, but it often happens that we are sellers of sterling and buyers of United States dollars at the same time, so that the

United States dollars are already on hand.

SIR CHARLES ADDIS: That is to say, there are occasions when although the demand for sterling is less than the demand for dollars in the aggregate, there are occasions when the demand for American dollars is less than you need to sell sterling, so that the final result is a greater demand for Canadian dollars. Is that the sort of circle it produces?

MR. KNIGHT: At certain times of the year, yes.

SIR CHARLES ADDIS: Would you then bring that demand on through New York?

MR. KNIGHT: I think we would. Of course a lot of our transactions offset other transactions.

SIR CHARLES ADDIS: You are able to marry a number of transactions?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: So it is only the residue you have to deal with?

MR. KNIGHT: Yes. In respect to the marrying of transactions and the disposal of the residue, the influence of forward operations must be taken into consideration. At times these operations may constitute perhaps half of the day's business. The banks encourage their clients to avoid exchange risks on future commitments abroad by forward exchange operations as far as is practicable and at times furnish cover further forward than market permits. It is therefore necessary at times for banks to create spot balances in either London or New York against future sales, and vice-versa.

SIR CHARLES ADDIS: The residue is all-important. How do you deal with that residue? That is what I want to

know.

MR. KNIGHT: If we have sterling on hand and there were no markets for it in Canada, we would immediately sell it in New York. We would not hold it. We would carry the transaction half way immediately, having possibly some idea of the trend in the United States dollar while we may have no knowledge of what the future movement in sterling may be.

SIR CHARLES ADDIS: In other words, you have to take up to some extent at least a position in exchange;

MR. KNIGHT: Yes, but not an extended position.

SIR CHARLES ADDIS: There are balances left over?

MR. KNIGHT: Yes. It may happen that we have sterling on hand which we can usually sell in New York without difficulty, but we may not be able to bring the dollars to Montreal. We may be forced to leave them in New York for a time.

SIR CHARLES ADDIS: Having no demand in Montreal?

MR. KNIGHT: Yes, but that is not usual. It would be unwise to force United States dollars on the market when such course would have the effect of considerably dropping the rate.

SIR CHARLES ADDIS: So you would then hold it off?

MR. KNIGHT: Yes. We might sell say fifty thousand pounds bringing two hundred thousand dollars to New York. If we threw that $200,000 on the market we might depress the rate more than was warranted by conditions, whereas if we held it over until the next day or few days, we might be able to work it out even in our own internal operations without affecting the market.

SIR CHARLES ADDIS: But so far as the residue is concerned, you may have to take up a position from day to day on account of your natural desire not to throw the exchange into dislocation?

MR. KNIGHT: Yes.

MR. TOWERS: In practice the position one is forced to take is never very large.

SIR CHARLES ADDIS: We are dealing not so much with matters of amount as with a question of degree and as to how far these operations go, how far the bank operations in exchange affect the Canadian position. You are aware, of course, that it has been strongly contended that this has no effect at all. I do not wish to exaggerate or to press you unduly, but merely to discover if I can with your assistance how far the influence of the banks is, in point of fact, exercised consciously or unconsciously upon the stability or instability of the foreign exchange, and I think your answer is quite clear on that point. Take another case. Is it a possible arbitrage transaction to sell sterling for American dollars, to swap them into American dollars - you know what "swap" means - and then make a direct swap back to sterling without going back to New York?

MR. KNIGHT: Not quickly enough to make a profit, because the direct rate is already based upon the other two sides of the triangle.

SIR CHARLES ADDIS: It is not a possible arbitrage transaction?

MR. KNIGHT: In general practice it is not, because most of the banks have their direct wires to New York

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of making a p

nging could be done wi

: That applies both to normal and

That has been my experience.

ADDIS: Over a long period of years?

: Over thirteen years.

LES ADDIS: May I take it from your answe

you may take a short-term position in Am

never take such a position in sterling?

KNIGHT: Not necessarily.

IR CHARLES ADDIS: You do?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: So what you said ab

ld apply equally to sterling?

MR. KNIGHT: Except to a lesser ex

SIR CHARLES ADDIS: And with more d

over the exchanges? It is a little dif

understand just how completely the am

operations of necessity passes thro

if one of the banks wishe

ould the New York rate

or would the London vendor ca

would you do?

KNIGHT: I woul

ADDIS:

conversion involves the conversion of sterling into United States dollars you have eventually to bring them back over the New York-Montreal exchange?

MR. KNIGHT: Not as a market transaction but the [illegible] is there.

SIR CHARLES ADDIS: It would be brought back over the Montreal-New York exchange?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: Restricted though it is and difficult though it is, you can carry out that particular transaction?

MR. KNIGHT: Yes. In fact, it is very much easier as a rule to sell sterling in New York for United States funds than to sell sterling direct.

SIR CHARLES ADDIS: Can you give us an idea of the extent to which direct sterling Canadian operations are carried on? Is it possible to form some idea of the direct [illegible] as apart from the triangular operations? What [illegible] do they form of your total transactions?

MR. KNIGHT: I would say that we are able to marry and cover in the local market possibly 25 per cent, but that is just a guess.

SIR CHARLES ADDIS: That is the amount you marry?

MR. KNIGHT: Marry or cover in the local market through another banker.

SIR CHARLES ADDIS: It would be about one-quarter?

MR. KNIGHT: I could not say definitely. Perhaps Mr. Towers could answer that question.

MR. TOWERS: I have no idea.

MR. KNIGHT: It depends largely on the state of the market. In normal times I would say that it would be much higher, possibly a half but subject to wide daily variation. In abnormal times, when we have a demand for say twenty-five thousand pounds, we rush to cover, [illegible] cover in the quickest way available.

SIR CHARLES ADDIS: Your estimate of a half is very interesting in its relation to the trade between New York and Canada and between Canada and London, and that struck me at once when you mentioned that figure.

MR. KNIGHT: It was purely a guess. I know that in normal times a week may sometimes elapse without our having recourse to the New York market for sterling. That is why I estimate it must be at least that. In referring to trade between Canada and London you are doubtless aware that a considerable portion of the export of grain is financed either in London or New York. Therefore in such case the sterling which may be involved does not come into the hands of the Canadian banks.

SIR CHARLES ADDIS: Fifty per cent; that is

interesting. How wide is your exchange market? What is the extent of the average day's transactions? What t run into in point of figures roughly?

MR. KNIGHT: Without having any figures before me a rough guess would be that the average daily turnover of the banks as a whole is in the neighbourhood of four hundred thousand pounds, but the actual daily amount is subject to wide variation. The daily market turnover in Toronto and Montreal for sterling varies all the way from nothing to two hundred thousand pounds.

SIR CHARLES ADDIS: That would be a large amount in one day?

MR. KNIGHT: Quite large.

SIR CHARLES ADDIS: Even in the season?

MR. KNIGHT: Even in the season because at times we are all on the same side.

SIR CHARLES ADDIS: Repeat that, please.

MR. KNIGHT: We are all on the same side at the same time.

SIR CHARLES ADDIS: Who are "we"?

MR. KNIGHT: The banks -- we may all be sellers or all buyers. In the autumn our exporting clients are sellers when there is little local demand, but in June and December interest requirements reverse the trend.

SIR CHARLES ADDIS: I understand that. There is no marrying there. It is the aggregate amount then?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: And it may reach two hundred thousand pounds in a day?

MR. KNIGHT: I do not remember a day when there

has been more than two hundred thousand pounds done in
...nadian market without the intervention of New

SIR CHARLES ADDIS: You are speaking of the market as a whole?

MR. KNIGHT: I am speaking of Toronto and Montreal.

MR. TOWERS: That would not include sterling which might be sold in New York.

MR. KNIGHT: No.

COMMISSIONER LEMAN: That would be for trade requirements?

MR. KNIGHT: For the requirements of our clients.

COMMISSIONER LEMAN: Would there be large amounts involved in capital movements?

MR. KNIGHT: No, not in the local market. A ... be done here but the bulk would of necessity ...h New York.

COMMISSIONER LEMAN: I wanted to bring out this point. In the case of an issue made in London the proceeds of which would be brought back to Canada; would they come through New York or come direct to this country?

MR. KNIGHT: It would depend on the position of whoever had the transferring of funds. A large part would be brought back through New York, but a portion would come direct in the marrying of these transactions with other clients' requirements.

SIR CHARLES ADDIS: Did I follow you correctly? In the case of an issue of a loan your premise was that the proceeds were left for the bank to arrange?

MR. KNIGHT: No. What I meant to convey was

that it would depend on the position of whoever was responsible for bringing back the money, and if their requirements were such that they needed money in New York they [illegible] bring a considerable portion of the Sterling [illegible] in any case, but if they required to bring the whole amount to Canada, a large proportion would come through New York and a small proportion would come here direct.

COMMISSIONER LEMAN: The two hundred thousand that you mentioned as being the transactions for [illegible] would cover both capital movements and trade movements?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: Would you qualify your answer by saying, apart from exceptional transactions?

MR. KNIGHT: There is always the exception. It might be possible to marry a transaction of a million pounds, but that is not a market transaction. When I quoted two hundred thousand pounds asthe limit of the market I mean the market. I do not mean transactions where one of our clients is a buyer and another a seller and we marry the two transactions. We might possibly have a turnover of a million pounds but at the outside [illegible] would not be more than two hundred thousand pounds [illegible] market.

SIR CHARLES ADDIS: From that point of view the market might be described as fairly active?

MR. KNIGHT: No, because any time that we have a two hundred thousand day it usually means that there is one large buyer and one large seller, and the transaction

are going through in say ten or twenty-five thousand pound lots.

SIR CHARLES ADDIS: Smaller amounts have been concentrated in the banks previously. There is no general demand from day to day?

MR. KNIGHT: There is always some demand from day to day, but it is largely taken up inside the banks. Take, for instance, small transactions throughout the branches as a whole that are closed on what we call our daily mail bulletin which we send out to our branches. When we strike a balance there are possibly not more than four or five thousand pounds on one side or the other.

SIR CHARLES ADDIS: From what you have told us it cannot be said that the market is in such direct touch with the London market, or at least not in the same way as the New York dealer is in touch with London?

MR. KNIGHT: By no means.

SIR CHARLES ADDIS: With regard to your branches, what instructions do you give to them regarding exchange dealing?

MR. KNIGHT: The smaller branches receive a daily bulletin which is mailed from the central distributing offices. It is first wired from the head office exchange department to these distributing centres, which are so placed that wherever possible the rates are in the hands of these smaller branches the day after they are made. The limits within which such rates may be used are quite restricted, say, a hundred and fifty pounds in keeping with the requirements of the community served. As to the larger branches, we have a system of distributing

rates as the market changes and according to local conditions. We may send only one daily wire to a certain branch, and we may send ten or even more to another branch. We have fast wires with Vancouver and Winnipeg and these branches get all market changes of consequence. The larger branches are allowed to buy or sell at the latest rates received immediately without reference to head office up to limits which we consider large enough for their requirements. If branches have any transactions in excess they wire us for firm quotations. We have very few market orders from our clients and a considerable portion of the business is competitive.

SIR CHARLES ADDIS: You wire the rates to the branches. Do you give your branch manager your Toronto or Montreal rate, and leave him to adjust it?

MR. KNIGHT: We leave him to adjust the rate to the client. We wire sterling and United States dollar rates at which the Department will cover him.

SIR CHARLES ADDIS: Only these two?

MR. KNIGHT: Always those two and others if necessary. In mining districts, for instance, we also wire the lira rate for emigrant remittances.

SIR CHARLES ADDIS: And given those rates is the branch manager in a position to work out some sort of a rate on foreign currency or would he be given them separately?

MR. KNIGHT: In the mail bulletin he gets the Canadian rates on all the continentals.

SIR CHARLES ADDIS: And he can work out the necessary arbitrage?

MR. KNIGHT: He does not require to do so because he has the actual Canadian rate before him, and his clients require the Canadian rate not the United States dollar rate.

SIR CHARLES ADDIS: In practice he does not do that?

MR. KNIGHT: No, in practice he takes the actual rate he has from his foreign exchange department which, in the ordinary course, is a service department operating without any thought of profit but just as a service to the branch, and the branch manager adds his margin of profit.

SIR CHARLES ADDIS: You give them both buying and selling rates?

MR. KNIGHT: Yes, there will be a spread between [illegible] depending on the condition of the market.

SIR CHARLES ADDIS: The market on which the exchange is drawn?

MR. KNIGHT: The condition of the market for that exchange as we see it. We have a bid and offer for sterling in New York, and we may have a bid and offer on United States dollars. By putting the two together we can arrive at rates with a fair spread.

SIR CHARLES ADDIS: In other words you take the general condit[illegible] make up your [illegible] as to what is the proper rate to secure your profit?

MR. KNIGHT: Not our profit. I would rather say the margin of safety.

SIR CHARLES ADDIS: Does that apply to all the banks? Does each bank take its own view of the spread?

MR. KNIGHT: Yes, but I may say that a committee

was recently appointed by the Canadian Bankers' Association to bring about more uniformity in the spreads. In view of the present erratic conditions it is difficult to accomplish this because it would mean that we would all have to send our rates out simultaneously, which is rather difficult to arrange.

SIR CHARLES ADDIS: There is no agreement between the banks as to the spread between buying and selling. That is arrived at according to the individual opinions formed by the different banks?

MR. KNIGHT: Yes.

SIR CHARLES ADDIS: There is no agreement between the banks?

MR. KNIGHT: An agreement at the present time would be rather difficult to bring about owing to the changing conditions.

SIR CHARLES ADDIS: Does it work out fairly uniformly or are there wide differences in the spread?

MR. KNIGHT: There are differences occasionally but generally the spreads are fairly uniform. They vary, of course, with the time the rate is outstanding before it is in use at the branch. Under conditions similar to the present I would say that the spread in the mailed bulletin in United States dollars would be one-half per cent. This is a margin of safety, not necessarily a source of profit. In fact, owing to the time in transit the net result is often a loss when the advices arrive at the head office. Moreover in the small transactions in United States dollars there is usually an excess of purchases over sales and owing to the time

occupied in the transit the "float" has to be estimated and allowed for in our daily position.

SIR CHARLES ADDIS: In the result it always works against you?

MR. KNIGHT: Not always.

SIR CHARLES ADDIS: But the spread you start with is one-half of one per cent and you often finish up with [illegible]

MR. KNIGHT: We never realize the spread that we set in our bulletin. Of course, if there is a steady market and we have one-eighth of one per cent spread we will run pretty close to that one-eighth.

SIR CHARLES ADDIS: I understand. It always runs down but never up?

MR. KNIGHT: I think that is the general experience of all.

SIR CHARLES ADDIS: Possibly due to the keenness of the local managers.

MR. KNIGHT: That may have something to do with it.

SIR CHARLES ADDIS: And with regard to the important branches the rate varies not only from day to day [illegible] very several times a day?

MR. KNIGHT: Yes. We have instantaneous communication with Vancouver and Winnipeg, which get the changes in the market within a few minutes of our getting them.

COMMISSIONER LEMAN: There is as a matter of fact fairly keen competition between the banks on foreign exchange?

MR. KNIGHT: I think there is more competition here than anywhere else outside London.

COMMISSIONER LEMAN: Do you know of any country where the spread on foreign exchange transactions is smaller than in Canada?

MR. [illegible]: That is rather a difficult question to answer.

COMMISSIONER [illegible]: [illegible] you think that the Canadian customer benefits through the fact that you are in the position to, and do actually put through many of your [illegible] transactions in the larger markets of New York [illegible]

MR. KNIGHT: Undoubtedly.

COMMISSIONER LEMAN: You are aware no doubt of the question which has arisen in the public mind as to the advantage of dealing directly in Sterling, for instance, as between London and Montreal. Do you think that the Canadian customers would benefit from such transactions?

MR. KNIGHT: Under present conditions I can perhaps best answer that question by [illegible] an illustration. If, for example, [illegible] man has twenty-five thousand pounds to sell, and we are restricted to the direct market, there would under present conditions be many occasions [illegible] transaction could not be completed even on the [illegible]

COMMISSIONER LEMAN: Do I understand your answer to be that the Canadian customer benefits from these deals?

MR. KNIGHT: Undoubtedly. It is in his best interest.

COMMISSIONER LEMAN: Then there are a variety of

exchange transactions; there are those which cover cable transfers, cheques, and also term bills: Does the rate of interest available in one centre as against another centre constitute a material factor in the exchange rate which can be obtained in one market in comparison with another market?

MR. KNIGHT: In other words, do we apply the London discount rate to our bills? Is that it?

COMMISSIONER LEMAN: Or even the New York rate?

MR. KNIGHT: Do we apply the New York discount rates to our New York bills, and the London discount to our London bills? The answer is "Yes".

COMMISSIONER LEMAN: I did not want to put a leading question --

MR. KNIGHT: The answer is "Yes".

COMMISSIONER LEMAN: Therefore the Canadian customer is enabled to get the benefit of the London discount rate or the New York discount rate?

MR. KNIGHT: The Canadian customer in several instances is getting an advantage to-day to which he is really not entitled.

COMMISSIONER LEMAN: Is he not entitled to the very best which can be secured?

MR. KNIGHT: If he has a produce bill drawn in London, he is entitled to the rate that the two names on the bill would secure in the London market without a bank endorsement. At the present time he is able to dispose of those bills at something better than the London discount rate because of the anticipation of the bills being paid on rebate. Competition brought that about.

COMMISSIONER LEMAN: Do you find that when term bills, discounted in Canada on the basis of Canadian conditions are taken up in London under discount it gives an occasional advantage to Canadian customers?

MR. KNIGHT: If the bill is taken up under discount the advantage is to the bank, is it not?

COMMISSIONER LEMAN: It may be or it may not be; it would depend on the arrangements, would it not? Or let me put it another way; in quoting your rate, would you take into account the fact that the bill will be taken up under rebate?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: Therefore, there is an advantage?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: Just one more question. During how many hours, on account of the difference of time between London and Montreal, are you in a position to deal in exchange with London, in comparison with New York?

MR. KNIGHT: Generally speaking, taking the London closing as five o'clock, we have two hours, but we receive London's noon market at 7 a.m. our time, and if we have overnight positions or overnight orders we are able perhaps to fill them before the opening of either New York or Montreal.

COMMISSIONER LEMAN: Do you think that has an influence on the volume of transactions which go through the New York market?

MR. KNIGHT: Recently, yes.

COMMISSIONER LEMAN: How about the past?

MR. KNIGHT: Well, there is more interest in London in the direct Canadian market now than there was, say, four or five years ago, and there is more direct dealing. London will come to us by cable more frequently than formerly.

COMMISSIONER LEMAN: Now you have referred to the preference of London to convert its foreign holdings in America - or in Canada - in United States dollars. Have you found the same condition obtaining as regards the franc, or the French banks?

MR. KNIGHT: The course of exchange between London and France or between France and New York?

COMMISSIONER LEMAN: I am talking of French holdings of Canadian exchange: would they prefer holding the Canadian exchange, or securing American dollars?

MR. KNIGHT: I am afraid I cannot answer that question on authority, but my supposition would be that an operation in Canadian exchange by a French citizen or bank would often involve a threefold arbitrage, from France to London, London to New York, and New York to Canada.

COMMISSIONER LEMAN: Would that also be your impression, Mr. Towers?

MR. G. F. TOWERS: Yes, Mr. Leman.

COMMISSIONER LEMAN: That the ultimate monetary unit in which they want to have their holdings is in American fur

MR. KNIGHT: Oh, no; I misunderstood your question.

COMMISSIONER LEMAN: You take a French bank forwarding for collection a Canadian bill of exchange; will it want to hold the Canadian funds, or have them remitted to New York, - is that plain?

MR. KNIGHT: Yes. The collections coming from France are infrequent. I would say that a majority of them are remitted for in francs. If the draft is drawn in francs, the remittance is usually made in francs.

COMMISSIONER LEMAN: And if it is drawn in Canadian dollars?

MR. KNIGHT: That is a question I cannot answer.

THE CHAIRMAN: Sir Thomas White, are you desirous of entering into this discussion?

SIR THOMAS WHITE: No, Lord Macmillan; it is rather deep water for me, but I have followed it with very much interest, and I think all the questions have been asked which I had in mind, and more.

SIR CHARLES ADDIS: Do the banks themselves engage in arbitrage operations?

MR. KNIGHT: Not purely with the object of securing a profit -- at least, I do not think so.

SIR CHARLES ADDIS: That is also your view, Mr. Towers?

MR. TOWERS: Yes; I should say they would be very rare indeed.

SIR CHARLES ADDIS: Arbitrage operations?

MR. TOWERS: Yes, Sir Charles.

MR. KNIGHT: They are unprofitable.

SIR CHARLES ADDIS: That is the only obstacle in the way?

MR. KNIGHT: That is the principal obstacle.

SIR CHARLES ADDIS: I am sorry to insist upon this so much, but does that not hold true under normal conditions?

MR. KNIGHT: The public do not really appreciate advantage of the excellent rate services we have from New York, and in some cases from London for the New York dollar. That is a market which is active; there are very few occasions when it is narrow; generally it is an active market, with which we are constantly in touch either by our private wire, which, of course, is instantaneous, or by telephone. We use the New York telephone extensively in closing transactions.

SIR CHARLES ADDIS: But there are occasions, I should have thought when there was a profit in arbitrage operations under favourable circumstances. Do I understand the banks shut their faces against that?

MR. KNIGHT: They do not shut their faces. If they can see a profit, they will take it.

SIR CHARLES ADDIS: So the answer is they will engage in arbitrage operations when they think they will be profitable?

MR. KNIGHT: I would not like the impression to be created that they engage in arbitrage operations, as an ordinary part of their business, because they do not.

SIR CHARLES ADDIS: But you agree that the point is that the banks, seeing the possibility of a profit, will not be deterred by the pedantic idea of engaging in arbitrage operations?

MR. KNIGHT: Yes. Our exchange trading opportunities may appear limited to the outsider, but having close contacts with London and New York the facilities afforded are, I think, sufficient. In considering the relations between Canada and the United States, cognizance

must be taken of transactions originating in New York and the large [illegible]dian balances held by Americans, such as deposits of subsidiaries of United States corporations which create a fund for New York's operations in Canadian dollars. The market in the United States for Can[illegible]ian dollars is an important factor; some days it [illegible] than ours for United States dollars. This fund is an advantage generally in exchange operations but it may also be a source of danger in stabilization operations as it is available on demand.

COMMISSIONER LEMAN: Pursuing that question: Through your direct contact with London, New York and Paris, are you not in a position to take advantage of the large arbitrage operations carried out by those banks?

MR. KNIGHT: Yes, they should broaden the market.

COMMISSIONER LEMAN: So you have the effect of them?

MR. TOWERS: We do not know why it is a better market in London; we simply accept the fact.

COMMISSIONER LEMAN: You are aware that the European [illegible], or if not the banks, the brokerage organizations, [illegible] a very large arbitrage business are a factor in [illegible]hing a rate on a certain market?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: And you get the benefit of that rate?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: On account of the direct communication you have from London or New York or Paris or Amsterdam or Berlin?

MR. KNIGHT: The more markets we have contact with, the better we can conduct our operations.

COMMISSIONER LEMAN: You do get the benefit of arbitrage operations carried out by others?

MR. KNIGHT: Yes.

COMMISSIONER LEMAN: That is the only object of my question. That is right, too, Mr. Towers?

MR. TOWERS: Yes, Mr. Leman.

THE CHAIRMAN: We are very much obliged to you, gentlemen, and I do not think it will now be necessary to trouble you to prepare a written statement, unless my colleagues [illegible] it. This will be placed at your disposal, and you may go over it and revise it. Perhaps you have something just now which you wish to add?

MR. KNIGHT: There is one thing I would like to [illegible]. It seems to be the impression of the general [illegible] that a direct market for sterling can be created entirely independent of New York influences. This, I think you will agree is an impossibility at any time. The feeling is that we are paying tribute to New York on all exchange operations which is not a fact; moreover, if it were possible to confine our activities to a direct market the public in my opinion would suffer by being debarred from taking advantage of outside facilities.

At the request of the Prime Minister a bank committee was appointed some two years ago, of which I was a member, and we went into the whole matter thoroughly. The Committee reported that in their opinion an independent direct market was an impossibility.

SIR CHARLES ADDIS: Is that report available?

MR. C. E. S. TOMPKINS: I think I have a copy. In any event, it can be filed.

COMMISSIONER LEMAN: There is one point we should not forget, because it is a matter which has been called to our attention in Victoria. Is there any indication you can give us as to the facilities you provide for trade with the Orient? Can you give us any information on that point?

MR. KNIGHT: Trade with the Orient was financed until recently by United States dollar credits. Mr. Towers can probably answer that question better than I. There are still some United States dollar credits running.

HON. MR. BROWNLEE: Financed very largely through large Japanese firms, with headquarters in Seattle?

MR. KNIGHT: Yes, and Chinese, too.

COMMISSIONER LEMAN: It was represented to us that the Canadian dollar was little known, if known at all, in the Orient, and that there might be some decided advantage in having established an exchange rate for the Canadian dollar. Would you have anything to say on that point?

MR. KNIGHT: It is my impression that the Hong Kong and Shanghai Bank, and the Yokohama Specie Bank both give Canadian quotations.

COMMISSIONER LEMAN: On the basis of United States exchange or Canadian exchange?

MR. KNIGHT: I think they receive wires from their offices in San Francisco, giving the discount on the Canadian dollar, or the premiums on the United States dollar as the case may be, and from that they work up their Canadian rate.

COMMISSIONER LEMAN: So would you say that there again the largest market in exchange must be the dominating factor? In other words, a much larger volume of business --

MR. KNIGHT: I think so, although there is a little complication there. We have not the contacts with Yokohama and Shanghai that we have with London, Paris and New York, and there would not be the flow of rates giving any change in Canadian discount. Yokohama and Shanghai would possibly receive only one rate a day, and in that case there might be a considerable margin of safety provided for in the quotations of the Japanese and Chinese banks for Canadian dollars.

COMMISSIONER LEMAN: Would you say there was something lacking in the way of developing a direct contact --

MR. KNIGHT: No, having in mind the present volume of trade.

COMMISSIONER LEMAN: You do not think the present volume of trade would warrant establishing a direct exchange

MR. KNIGHT: I think if it did, the Japanese banks and the Shanghai banks would be very quick to take advantage of it. I understand their exchange market there is quite keenly competitive, is it not, Sir Charles?

SIR CHARLES ADDIS: Very competitive.

MR. KNIGHT: If there was an opportunity for developing, they would take advantage of it.

SIR CHARLES ADDIS: The suggestion put forward to us was that the Canadian banks would do well to establish

branches in China in order to get that contact of which you speak, and I take it that your answer would be that the volume of business would not justify it.

MR. KNIGHT: I am speaking for ourselves -- and I am sure Mr. Towers can confirm it -- when I say that the Canadian banks have gone very thoroughly into the matter and have reached the conclusion that the present is not the time.

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Eighteenth
JANUARY
1932

Circular No. 87 - I

The General Manager.

Dear Sir:

The minutes of the conference between the Prime Minister and the bankers at Ottawa on the 16th December [illegible], contains the following:

"The Prime Minister said there were two matters which he wished to discuss with the banks:
The first, which was not so immediate or pressing, was as to the possibility of establishing, probably at Montreal, an exchange market which would do away with the necessity of Canadian business and financial interests buying foreign exchange in the New York market, through the instrumentality of which all Canadian international financial settlements are now made . . . ."

Under the direction of the President, the following Committee, of which Mr. R. E. Knight of the Bank of Montreal acted as convener, was appointed to inquire into [illegible] report on the proposal:

Mr. R. E. Knight	Bank of Montreal
Mr. E. Holmes	The Canadian Bank of Commerce
Mr. J. L. Lawson	The Royal Bank of Canada
Mr. L. P. St. Amour	Banque Canadienne Nationale
Mr. H. D. Scott	Imperial Bank of Canada

The President now directs that a copy of the Committee's report as attached hereto be sent to each bank.

The President requests that you be good enough to examine the report, and if you have any suggestions as

to amendments or additions to the report, the President would be glad to have them submitted so that the report as made, or as it may be amended, may be presented to the Prime Minister in due course.

Yours truly,

(Signed) Henry T. Ross,

Secretary.

Enclosure to Circular No. 87 - I

Report of the Sub-Committee, named by the President of The Canadian Bankers' Association on January 7th, 1932, to consider the Prime Minister's suggestion as to the feasibility of establishing an exchange market in Montreal, which would function independent of the New York market.

The feeling of the Committee is that the reports which have appeared in the press from time to time have given rise to misunderstandings on the part of the public as to the value of Canadian funds in terms of other national currencies, and have created the impression that the buyer or seller of any exchange in this country pays toll to New York because the price paid for exchange actually works out to the New York dollar price, plus the prevailing premium [illegible] New York funds. This is not the case.

The chief confusion in the mind of most of us on this subject is caused by the fact that Canadian currency and United States currency are both called "Dollars". If United States currency were given another name, say "Money", there would be no suggestion that our rate was subservient to New York. For example: 100 yen might be worth, say 40 Canadian dollars and 30 United States "money", and ipso facto, 30 United States "money" would be worth 40 Canadian dollars. Any change in the value of yen or Canadian dollars in terms of United States "money" would be reflected in the value of yen in Canadian dollars.

The exchange of any country is similar to a commodity which is of international value in that its price

is established by the single law of demand and supply. It is impossible to set up in Canada an exchange market independent of New York and London, because all exchange markets are dependent on each other. The country having the largest volume in any given currency usually dominates the market in that currency, but the relation in quotations at various points is maintained by a system of arbitrage. For example, if the rates between

LONDON and PARIS
PARIS and BERLIN
BERLIN and LONDON

are out of line, so that it is profitable to sell sterling in Paris, and with the proceeds buy German marks, which in turn are invested in sterling, and the resultant operations will show a profit, such operations will be immediately undertaken by exchange dealers until the equilibrium is restored.

MONTREAL, NEW YORK and LONDON are in the same position. The rate between LONDON and MONTREAL must tend to equal the rate between LONDON and NEW YORK, plus the premium, or minus the discount on New York funds in Montreal. Otherwise, transactions will immediately gravitate to the point where they can be most easily and profitably handled.

There is an active turnover in MONTREAL and TORONTO in United States dollars. The rate for Canadian funds in NEW YORK and LONDON reflects the market for United States funds in Canada, but, we again emphasize, the price is governed by the law of SUPPLY and DEMAND, wherever that demand and supply exists.

The seeming disparity between the premium on New York

... in Canada and the equivalent discount in New York, is merely a matter of simple arithmetic, and is caused by the difference in the principal amounts involved, upon which a fixed amount of premium or discount is calculated. For example, with New York funds at 25 per cent premium, $100 New York funds is equal to $125 Canadian; therefore, $100 Canadian is equal to $80 United States funds. Eighty deducted from 100 gives a discount of 20 per cent on Canadian dollars in the United States.

Apart from United States dollars, the currency in which we are most interested is sterling. Our exports to Great Britain considerably exceed our imports and we should, therefore, be sellers of sterling on balance, but this balance due to Canada may be liquidated in three ways:

(a) The Canadian exporter may draw on GREAT BRITAIN in STERLING, thus creating BILLS OF EXCHANGE on LONDON;

(b) The importer in GREAT BRITAIN may set up Canadian dollars from his end;

(c) The importer may provide sufficient United States Dollars which will net the exporter the required amount of Canadian dollars.

The course which will be chosen is the one that appeals to the importer, since, in commodities, the present is a buyer's market. "(b)" and "(c)" may thus be used extensively and reduce the amount of sterling to be marketed from Canada.

In the daily accumulation of exchange transactions

in the various banks, there will always be a certain number of sales to clients which are offset by purchases from other clients, particularly in United States dollars and sterling. These offsets at times run into large figures, and it is merely the balance for which cover has to be obtained in the open market. This cover is not always procured abroad, because there are occasions when it is possible to trade between Canadian banks, particularly in sterling. Even when cover is not available in Canada, it is not invariably obtained in New York. Many transactions are covered in London, but owing to the difference in time, London is closed before noon in Montreal and Toronto. Therefore, all later covering operations must be carried out in New York, or held over until the following day, with the consequent risk.

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To sum up, we are of the opinion that Canadians are not handicapped by the method now followed in buying and/or selling their exchange. In fact, they are better served by having access through exchange dealers to the markets for exchange in other centres than they would be by having any group attempting to regulate exchange values between Canada and any other country, without taking into consideration the values in other markets.

Canadians requiring exchange on any country in the world, except those having prohibitive government restrictions have no difficult in obtaining it at fair rates through their bankers. In the larger cities the service is quite up to that given in New York or Chicago, and in the smaller cities and towns, Canadians are better served than are United States' citizens similarly placed.

12th January, 1932.

THE CHAIRMAN: I think that completes our sitting, except that I desire to ask Professor Jackson one or two questions.

Mr. Jackson, at the early stage of our proceedings, I think I was responsible for asking the question whether there were any suggestions as to the sufficiency of the statutory returns under the Bank Act, which the banks make from the point of view of the information which they afford, and as the forms of returns are scheduled to the Act, they form part of the statute, and therefore is before us as a matterfor revision.

I am going to ask you now the question, not in your capacity as advising the banks, but rather in your capacity as an economist, interested in the data of your profession. I think you have consulted with one ortwo of your friends on this subject and have a suggestion or [illegible] make as to the form of returns.

MR. JACKSON: I would rather make the suggestions at leisure in writing than make them this afternoon, because of the limitations of what is possibly a factor in the case, and while one might lay down an abstract of information, one would not like to say it would be good for the country to have. Until one has looked at the concrete difficulties of getting information from banks scattered all over the place, I doubt if any opinion I could give you this afternoon would be a very safe opinion. I could give you a memorandum by the middle of next week which would incorporate the knowledge of the accountants who have to make the statements up, and which would be on absolutely safe ground as far as the possibilities are

concerned.

THE CHAIRMAN: I wanted to get a couple of sentences down on the notes to show that the topic was not overlooked, and if you will adopt the course you suggest, and send us a memorandum within the limits of reasonable practicability, we may touch upon the subject in a sentence or two in our report. I wanted to see that the subject was covered.

One does not want to put upon the banks the obligatior of providing academic figures. Statistics are mounting up in the world at a most appalling rate, many of them of no real value, but if you have any suggestion to make which is useful we will be very glad to have it.

MR. JACKSON: I would think we might suggest a little more simplification, rather than an enlargement of the report.

COMMISSIONER LEMAN: There may be one question you could answer now. The monthly returns of the banks are to a certain extent statistical; that is to say, they do not flow out of a balanced statement, after the books are closed. Would you consider preferable to have a semi-annual complete statement drawn from balanced books or a continuation of the statistical information given out monthly in the returns of the banks? Could you answer that question now?

MR. JACKSON: The annual statement is in a somewhat different form than the monthly statements, and I think is not only more simple, but perhaps also in a more useful form. It has not the small items attached to it

for immediate purposes.

COMMISSIONER LEMAN: The yearly statement?

MR. JACKSON: Yes, the yearly statement. On the ot[illegible] r[illegible] I doubt if making that statement regularly half yearl[illegible] [illegible] than yearly would in itself add a very great deal [illegible] knowledge of the fluctuations we are trying to study.

My own feeling with regard to bank statements generally, speaking as an economist, is that they should be as simple as possible, as frequent as possible, and as little delayed as possible in publication.

COMMISSIONER LEMAN: Therefore it must be somewhat in a statistical form, because you could hardly expect a bank to cl[illegible] its books every month.

MR. JAC[illegible]: No.

COMMISSIONER LEMAN: So that it would be a question of studying the statistical information which might be made available every month by the banks.

MR. JACKSON: Yes.

COMMISSIONER LEMAN: Is there any great advantage in the distinction which is being made between the monthly returns, in which deposits are classified as "demand" and "notice deposits", versus the Annual Statement in which they are classified as "Non-interest-bearing" and "Interest-bearing" deposits.

MR. JACKSON: I think the annual classification is to be preferred.

COM[illegible]NER LEMAN: And you would think of suggesting a greater u[illegible]formity as between the yearly and monthly

returns?

MR. JACKSON: I think so. May I add that from t. standpoint of economic study, it is the aggregate figures of all the banks which are of real interest, and not the individual figures of the banks which are really incidentally only part of that aggregate, and it might be possible with a frequent aggregate return to add a good deal to the country's knowledge, without t necessity of publishing all the figures of the individua banks, which would add hundreds of items to the statemen

COMMISSIONER LEMAN: I understand you will give us some writ n recommendations on that point?

MR. JACKSON: I hope to by the middle of next wee

SIR THOMAS WHITE: I think there is one feature y must bear in mind, and that is that the only reason for publication of this information is to disclose the c itions of individual banks, so far as it may be disc by a statement.

MR. JACKSON: I have that in mind. I was speakin of it purely as a subject of academic study, when I made my last remarks.

COMMISSIONER LEMAN: Pardon me for asking one ot question. Have you taken into account the fact that the was some divergence of classification as between bank returns in the United States and those in Canada? There been some correspondence exchanged between Canada and statisticians in the United States, to try and bring abou uniformity.

MR. JACKSON: I did not know of that correspondenc

THE CHAIRMAN: That concludes our sitting for this afternoon.

The Commission adjourned.

MEMORANDUM FOR THE INFORMATION OF

THE ROYAL COMMISSION ON BANKING AND CURRENCY

PREPARED BY

R. T. KNIGHT, MANAGER

OF THE FOREIGN EXCHANGE DEPARTMENT OF THE

BANK OF MONTREAL

My Lord and Gentlemen of the Royal Commission

on Banking and Currency,

My duties require the supervision of all foreign exchange operations of the Bank of Montreal in Canada and Newfoundland, and certain of those in London and New York. The remarks following in respect to general routine will apply particularly to that bank, but I believe they may be taken as fairly representative of the methods followed by at least four other banking institutions here.

THE FUNCTION OF THE FOREIGN EXCHANGE DEPARTMENT

The Foreign Exchange Department, which is a part of the Head Office, supplies, with one or two exceptions, all the requirements of the branches, and furnishes rates of exchange for the purpose. It acts as a clearing house, sets off purchases against sales, and obtains cover for the residue in the local or other markets, as circumstances require.

It is essentially a service department for the benefit of the branches, and profits are a minor consideration. The spreads between buying and selling rates, referred to subsequently, do not represent profits, but are in the nature of margins of safety, varying according

market uncertainties. Therefore, the rate quoted to ... nt will not be the same as that given by the ... Exchange Department, as it will include the profit of the local branch.

ESTABLISHING TRADING RATES

There are local markets in both Montreal and Toronto; the former has six (6) brokers, the latter two (2). These brokers do not act for their own account, but merely as intermediaries, receiving a brokerage of 1/64 of 1 per cent on United States dollars and 1/16 of a cent on sterling.

Open market trading is confined exclusively to the banks, corporations and individuals obtaining their requirements direct from their bankers, which requirements are thus a private matter between client and banker.

... s not mean an absence of competition; on the ... competition is usually keen.

The local market for sterling is narrow, difficult, and often one-sided, for reasons which will be explained later, but there is usually an active market for United States dollars. In consequence, there are frequent occasions when it is not possible to trade in sterling locally between banks at rates as favourable as are obtainable by "arbitraging" through New York.

In practice, trading rates in sterling cannot be established by local demand and supply, because either one or the other is often absent, but are built up from the rate for sterling in New York, or United States dollars in London, plus the premium or minus the discount on United States dollars in Canada.

Having direct wires with their New York offices, the banks receive instant advice of all market changes. In fact, in an erratic market, the flow of telegrams is practically continuous. A change in the New York sterling rate does not necessarily involve a change in the Canadian sterling rate, because it often happens that in New York the Canadian rate will advance and decline with sterling and, therefore, the Canadian sterling rate will remain stationary, or subject to minor variations. On the other hand, quite frequently the Canadian dollar declines in New York when sterling advances, when, obviously, variations in the Canadian sterling rate will be wider than in the New York sterling rate.

RATE DISTRIBUTION

All rates supplied to branches are in Canadian dollars or cents per foreign unit.

The rate distribution is divided into THREE classes:

(1) Branches in the large centres, say, Montreal, Toronto, Vancouver, Winnipeg, Ottawa.

(2) The medium sized branches.

(3) The small branches having trifling requirements.

Montreal and Toronto receive advices of all market changes and trading rates of the Foreign Exchange Department, which latter are not binding on the Department. These offices may cover their transactions through the Foreign Exchange Department or in the open market, as they see fit. All other branches in these cities and else-

where throughout Canada must cover with the Foreign Exchange Department.

The Foreign Exchange Department is in close touch with Vancouver, Winnipeg and Ottawa by telegraph, and these branches have trading rates binding upon the Department, which are continually revised, in accordance with prevailing markets.

The medium sized branches receive binding trading rates from the Foreign Exchange Department daily, and more frequently, if market variations and local conditions require it.

The small branches receive daily, or otherwise, as mails permit, a rate bulletin, which is mailed to them from distributing centres strategically situated throughout the Dominion. These rates are furnished to the distributing centres by telegraph from the Foreign Exchange Department, being made up according to the market prevailing at the time the telegrams are despatched.

Any branch may apply by telegraph or telephone to the Foreign Exchange Department for special quotations, if circumstances require, the quotations being for a definit amount, and subject to immediate acceptance.

Branches are given rates for all foreign currencies required.

<u>SPREADS</u>. Spreads between the buying and selling rates in all these classes will depend upon the state of the market at the time they are set, and the length of time which will elapse before the advices of closures are received. It, therefore, follows that the spread, in the case of the mail bulletin, is usually higher than those in other classes; it

ranges from 1/64 of 1 per cent for United States dollars and 1/8 of a cent for sterling, to possibly 1 per cent and 2 cents respectively. While there is no agreement between the banks as to spreads and limits, these are fairly uniform over a period, but occasionally differences are apparent.

LIMITS, up to which branches may commit the Foreign Exchange Department, without previous reference. In normal times, the limits in Class 1 may be as high as,

$250,000 United States Dollars
and
£25,000 Sterling.

In the present abnormal times, they are necessarily reduced to, say,

$ 10,000 United States Dollars
and
£2,000 Sterling.

In Class 2, they vary widely, according to local requirements and geographical situation.

In Class 3, they are, roughly,

$ 1,000 United States Dollars
and
£200 Sterling,

which is ample for the communities which these branches serve.

ADVICE OF CLOSURES. In Classes 1 and 2, all amounts closed under the rates given are advised to the Department promptly by telegraph. In Class 3, by mail.

TURNOVER, OFFSETS AND RESIDUE

The total turnover for all of the Canadian banks, which includes all usances and forward exchange, varies widely, not only from day to day, but from year to year, and, for the purpose of this memorandum, may be set at a

rough daily average of £350,000 and 4,000,000 United States Dollars. All other foreign currencies are of minor importance, and may be ignored, except to remark that as exports to the respective countries are usually invoiced in either sterling or United States Dollars, operations are practically confined to outgoing remittances.

Owing to the small number of banks and the many branches which these institutions maintain throughout the country, it follows that in the concentration of exchange operations in the Foreign Exchange Department, there are many opportunities of matching purchases against sales -- otherwise known as "marrying." These offsets also vary widely, but may be placed roughly as [illegible] In normal times, 50 per cent in the case of sterling, and 70 per cent in the case of United States Dollars, of the total turnover. In present abnormal times, owing to market risks, they are necessarily lower, and may be placed at 25 per cent and 50 per cent respectively.

After eliminating the offsets, there remains the residue, which, in the case of sterling, is usually covered immediately. It is seldom that this can be done by a direct operation in the local market. Therefore, if we are "short", the practice is to either buy sterling in New York, or sell United States dollars in London. The United States dollars thus required, reduce our United States dollar residue, or add to it, according to whether we were previously over or short.

In speaking of the RESIDUE, it must not be assumed that covering operations are withheld until, say, the close of the day. The practice is to cover immediately

a position is known, particularly under present conditions; this may occasionally involve buying back funds previously sold on the same day.

OPEN MARKET OPERATIONS
- and -
FIRM MARKET ORDERS

As it is seldom that sterling can be covered in the local market advantageously, the usual practice in open market operations is to cover sterling in New York and cover the resultant New York dollars in Canada. This also applies to 'firm' market orders received from clients.

While there is usually an active market for United States dollars, extreme care is required in our open market operations, as any attempt to press sales or purchases, when the market is not favourable, may result in violent temporary fluctuations in the rate, which general conditions do not warrant. A bank may, therefore, be forced into carrying a long or short position for one or more days, but is seldom that such position is large. In normal times, there may be extensive operations in the placing of idle reserves abroad, but the exchange positions thus created are a part of the Head Office financing and entirely separate from the Foreign Exchange Department's operations.

OPERATIONS WITH LONDON

The closing of our market for United States Dollars, often accompanied by 'firm' overnight bids or offers for United States Dollars against Canadian Dollars, is cabled to London daily. From these rates London build up their opening Canadian Dollar quotation. All important

changes in the United States Dollar rate in Canada are cabled, as long as the two markets are operating. It appears that London prefers bids and offers for United States Dollars rather than for Sterling on a Canadian basis, because the market for Canadian Dollars is limited and if the Sterling rate for United States Dollars is erratic, [illegible] difficulty in establishing a trading rate for Canadian Dollars, unless they have some indication of the value of United States Dollars in Canadian terms.

We receive London's market quotations for United States Dollars and their nominal quotations for Canadian Dollars daily from 7.00 a.m. until the New York market is opened. This often enables us to cover advantageously in London overnight positions, or to execute 'firm' orders on hand. Even when the New York market has opened, we exchange bids and offers for Canadian Dollars against both United States Dollars and Sterling as circumstances warrant.

ARBITRAGE

As the banks continually revise their local rates for sterling, in accordance with market changes between London and New York, and between New York and Montreal, it will be seen that it is seldom possible to carry out a Montreal-London-New York swap "arbitrage" with profit. There are occasions, however, when attempts are made to sell Sterling in this market, to disguise the selling of United States Dollars.

TIME BILLS

There is keen competition between the banks for

short term documentary, produce and grain bills, which are purchased on the basis of the London market discount [illegible] in some cases a concession is made in anticipation [illegible] bills being paid under rebate. The seller is thus obtaining funds on more favourable interest rates than such bills would carry in London, even with the drawee's acceptance. Under present conditions, when the London discount rate is below the rebate rate, the basis is approximately 1½ per cent per annum.

FORWARD EXCHANGE

The banks have encouraged their clients to avoid exchange hazards on future trade commitments by the purchase and sale of forward exchange, and this has so far become the practice that on occasions forward operations represent 50 per cent of the daily turnover. While the [illegible] practice in foreign exchange markets is to confine f[illegible]ls to 3 months' delivery, the banks at times extend these periods to possibly six months, to protect their clients, which necessitates the creation of temporary balances abroad, or the arrangement of credits.

PUBLIC OPINION

Considerable publicity has been given to the fact that we have no active direct market with London. The impression prevails among the uninformed that it should be possible to conduct sterling operations entirely independent of New York influences.

Montreal is no more exempt from outside influences than any other of the world's exchange markets, and an independent direct market could not be operated without

severe restrictive measures, which could not be other than harmful to Canadian trade. Our financial situation cannot be compared to a country like Australia, because of the influence which the United States has on our affairs. It is sufficient to mention the enormous balances held in Canada for United States depositors, particularly Canadian subsidiaries of United States corporations, which funds are in the majority of cases subject to with[illegible] demand.

When trading is not subject to national or political restrictions, it may be taken as axiomatic that the more markets available, the easier transactions can be carried [illegible]. Therefore, the Canadian public, far from suffering [illegible]ity, should benefit from having easy access to the New York market.

At the suggestion of the Prime Minister, a sub-committee was appointed by the Canadian Bankers' Association on January 7th, 1932, to enquire into this matter, and a copy of its report has been filed.

Brief

Compiled and delivered on behalf of

THE BRITISH COLUMBIA BOND DEALERS ASSOCIATION.

To the Royal Commission appointed by the Government of the Dominion of Canada to inquire into and make recommendations as to any necessary Amendments to the Bank Act of Canada.

YOUR LORDSHIP and GENTLEMEN:-

May I take this opportunity of expressing for the various business organizations comprising the membership of The British Columbia Bond Dealers Association, which I represent, their appreciation of any consideration which you may at this late date accord this Paper. It is a matter of exceeding regret to us that in view of the extremely limited time afforded between the announcement of the fact that your distinguished Commission would hold public sessions in Western Canada, and its appearance in Vancouver, it was quite impossible to prepare and present a paper which would be at all adequate.

We consider that the opportunity of presenting our views to such an important Commission could not possibly be overlooked even although it has entailed the expense of a trip from Vancouver to do so. Any suggestions which we advance are submitted with a view to improving the operation of an Act which has, everything considered, performed its purpose up to the present very creditably.

REVIEW ACT MORE FREQUENTLY.

For the Parliaments of Canada, even with a background of decades of experience to have designed an Act which even although not open for revision from 1923 until 1934 and which has nevertheless created so few inequalities

during a period of such history making experiences in finance, is truly remarkable and a creditable performance. However, it appeals to us as reasonable that had the Bank Act been reviewed in 1928, it is quite possible that beneficial amendments would have then been made which would have assisted materially in alleviating the hardships to which businesses generally have been a prey since that time. We think that the period from 1934 to 1943 will see witness many unprecedented and unforeseen developments in finance which will warrant a further review of the Bank Act not later than 1939. Even having in mind the expense incurred thereby it is our considered opinion that the public interest will best be served by a more frequent review than decennially and we respectfully submit for your consideration our recommendation to that effect.

Curtail Banks activities in
retailing securities,

For us to attempt to suggest that our interest in the Bank Act is purely from the standpoint of becoming public benefactors would immediately lay our motives open to suspicion. In order to avoid any question of the sincerity of our representations let us immediately explain that our prime interest in appearing in this matter is to use our best efforts to have the banks' activities in the underwriting and distributing of securities eliminated or at least greatly curtailed and properly defined in the Bank Act.

Violation of the Act

We think that a disinterested and unprejudiced examination of the facts will disclose that not only is it

distinctly harmful from the standpoint of the Country as a whole to have the banks encroaching on other businesses which are not proper banking functions but also that it is a direct violation of the Bank Act, which idea is supported by the Supreme Court of Canada by a decision in March 1932 of Mr. Justice Duff, who is at present the Chief Justice for the Dominion of Canada, in the case of Royal Bank vs Mack (1932) 1, Dominion Law Report Page 753.

The circumstances of this case have such an important bearing on the whole matter of the banks dealing in securit and their attitude generally in the matter of encroaching on other businesses that we will take the privilege of quoting this case in full.

Supreme Court of Canada Case
Royal Bank vs Mack.

"APPEAL by the defendant from the judgment of the British Columbia Court of Appeal (1931) 3 D.L.R. 237, 44 B.C.R. 81, affirming the judgment of Macdonald, J., (1931) 2 D.L.R. 538, 43 B.C.R. 371. REVERSED - A.J. Mann, K.C. for appellant; T.G. Norris, for respondent. The judgment of the Court was delivered by Duff, J.:

"The agent of the appellant bank of Kelowna, one H. F. Rees, obtained from the respondent, who was a customer of the bank, the sum of $2,500. which he used for his own purposes; and in the action upon which this appeal arises, the respondent seeks to recover that sum from the bank. There is no real controversy as to the facts. Rees suggested to the respondent that some part of a sum of $3,000. which the respondent had on deposit with the bank, should be invested. The respondent was told that an investment could be found which would return interest at 8%. There is no dispute

that the respondent believed, nor do I in the least doubt that Rees intended him to believe, that in making this proposal, he (Rees) was acting as the agent of the Bank. It is equally clear that in handing over the sum of $2,500, for which he gave two cheques, (one payable to cash or bearer, and the other payable to self or bearer and endorsed by him), the respondent believed he was placing his money at the disposal of the Bank, and that Rees was fully aware of this. I should have had no difficulty in holding the bank liable if there were grounds upon which it could be affirmed that, in this transaction, Rees was doing something of a kind that, as agent of the bank, he was authorized to do, in the sense that such a transaction would fall within the general scope of his employment. I am constrained to the conclusion that the agent had no such authority, and for this reason. As I understand the evidence of the respondent, he was entrusting his money to Rees to invest it for him, at Rees' discretion, in some security of some description which would yield interest at 8%. It is plain, I think, that unrestricted discretion was committed to Rees as to the nature of the investment. I find myself in disagreement with the view expressed by one of the Judges in the Court below, (1931) 3. D.L.R. 637, 44 B.C.R. 81, that there was an implied representation by Rees that the subject matter of the undertaking was something within the Bank's powers under the Bank Act, R.S.C. 1927, c. 12, I have no doubt whatever that the respondent never thought of the Bank Act or of the powers of the Bank. Fairly interpreting the language and conduct of the parties, as disclosed in the evidence, the discretion committed to Rees cannot be held to be

limited in such a way as to bring the transaction within the scope of the Bank Act, unless an undertaking of the duty to invest for a customer, the customer's money, at the discretion of the bank; is something which falls within the scope of the business of a bank; according to the intendment of the provisions of the Act. There is no evidence before us justifying, or, indeed, pointing to the conclusion that the business of an investment agent or trustee is one which appertains to the business of banking, nor, in my opinion, does the transaction with which we are concerned fall under any class of transactions that is comprehended within the dealings authorized by s. 75 (c).

The appeal must, in my opinion, be allowed and the action dismissed with costs. "APPEAL ALLOWED."

Nine Canadian Banks in one Underwriting.

For anyone to attempt to suggest that every bank in Canada is not actively engaged in the business of underwriting and distributing of securities of practically every type and soliciting business as investment agents is entirely unsupportable. We have here an advertisement (Exhibit 1) "The Financial Times" of Montreal under date of September 1, 1933, offering for public subscription $13,500,000 of a new issue of City of Montreal bonds in which the names of everyone of the nine Canadian Banks appear. We shall recite later the public record of the underwriting and distributing by various of our banks of many issues including not a few speculative industrial bonds which have defaulted in interest and caused the investors of Canada millions of dollars of loss of capital

and income.

Banks not in Bond
business in 1923

To attempt to establish that the Canadian Banks have always engaged in this business in the same capacity as at present would be quite difficult because while it is true that during the War and for about two years afterwards when the Government controlled the prices of Victory Bonds, for the purpose of stabilizing the market, the banks were used for clearing all bonds bought or sold; their function at that time was simply to act as agent for the Government for which they received a fixed remuneration. When the Victory Bond Committee was abolished, the banks withdrew entirely from the bond business, returning to their previous policy in matters of this kind of refusing to make a bid to their customers for any bonds without arranging previously to pass the bonds on to a Bond House.

Banks' Names not in Selling
Agreement Government Loan 1923

That the banks' participation in the new issue of the Government bonds was on a very different basis in 1923 as compared to the present time is, we think, demonstrated by this copy (Exhibit 2) of the Syndicate Selling Agreement in September 1923 covering the only issue of Dominion Government internal bonds sold in Canada during that year. The first offering of these bonds, amounting to $50,000,000 and immediately increased to $200,000,000, was made by a group of four of the principal bond houses in Canada with no banks names appearing in the issue at this stage.

Bank of Montreal Syndicate Managers 1931,

Compare that with the Syndicate Selling Agreement covering the National Service Loan of 1931 (Exhibit 3) which

...re and you find the Bank of Mo...
of Syndicate Managers!

Banks shirk responsibility

Consider the circumstances of the case before ...n the one hand the banks compete most aggressively ...rcularizing and advertising for the business of legitimate investment houses, and on the other hand, ... it comes to taking responsibility for the actions t... manager of one of the Branches of one of the Banks ...o defrauds the investor out of his money - the bank successfully defends itself against recovery by the swindled investor, by hiding behind the Bank Act with the contention that the Bank Manager had no authority to act as an investment agent! Aside from any legal considera... of this matter, we would like to put this question to ... business men; how long would an investment house remai... in business were it known that the firm would not eve... take responsibility for the ordinary honesty of its ... manager? Is not such a condition of affairs a pub... menace?

English Banks have wider power than Canadian

...s your Lordship is probably more familia... the c...t of banking in Britain than here in ... we think that it is relevant to quote here fro... findings of Mr. Justice McPhillips in the B.C ... Appeal, in giving his opinion which was in s... that of Mr. Justice Duff of the Supreme Cou... ...ove-mentioned case. Mr. Justice M...
...sidera...

scope of employment of a manager of a bank in Canada [illegible] under the Bank Act (Cap. 12, R.S.C. 1927). It may be at once noted that managers of banks in Canada do not occupy the same position as managers of banks in England where it may be said that banks transact a great deal of business for their customers that is wholly outside of and not within the powers of the banks in Canada to engage in and not permissible to Managers of banks operating under the Bank Act."

Were it deemed necessary to go further in demonstrating that the banks have no legal right to engage in the investment business it is simply a matter of examining the Bank Act itself as it appears in its latest form in the Revised Statutes of Canada (1927) volume 1, under the heading "Business and Powers of a Bank."

<u>BANK ACT</u>

[illegible] bank may -

(a) open branches, agencies and offices;

(b) engage in and carry on business as a dealer in gold and silver coin and bullion:

(c) deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stock, bonds, debentures and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, Provincial, British, Foreign and other public securities; and

(d) engage in and carry on such business generally as appertains to the business of banking.

2. Except as authorized by this Act, the bank shall not either directly or indirectly

(a) deal in the buying or selling, or bartering of goods, wares and merchandise or engage or be engaged in any trade or business whatsoever

(b) etc.

<u>Originated 1866</u>

In the first place, in considering this act we think it is important to bear in mind that it has been conceived in and evolved from the minds of the representatives of the people of Canada in their various parliamentary deliberations dating from 1866, and the major portion of the Act has been handed down to us by the Dominion Parliament of 1871. John D. Falconbridge, Esq., K.C. Dean of Osgoode Hall Law School, Toronto, Ontario, who is recognized as a pre-eminent authority on the Bank Act upon which he has written four books dated 1907, 1913, 1924 and 1929 has this to say in dealing, in his latest edition, with the heading - "Effect of the Act upon transactions entered into in contravention of its provisions."

<u>Necessary to restrain banks</u>

> "It was said in Bank of Toronto vs Perkins that the prohibition of the Act is a law of public policy in the public interest, and that any transaction in violation thereof is necessarily null and void." etc.

In other words, we think it can be fairly said that in order to protect the public from any tendency of banks to invade any field of business that is not truly a banking function, it is necessary to specifically

define their powers. If, through the development of our financial activities, new types of businesses arise which had not been foreseen by the founders of the Act, then it is important that the, apparently always present, tendency of the banks to exploit to their own aggrandizement those fields, be definitely restricted.

Banks creep into
<u>insurance business</u>

In support of the suggestion that the banks always were eager to overflow the bounds of ordinary banking functions, we think that it is very significant that in 1923 it was found necessary to add to Section 75 above recited of the Bank Act the following two subsections:

3. No agent or manager of any bank shall act as agent for any insurance company or for any person in the placing of insurance, nor shall any bank exercise pressure upon any borrower to place insurance for the security of such bank in any particular agency, but nothing herein contained shall prevent such bank from requiring such insurance being placed with an insurance company which it may approve.

4. Nothing herein contained shall prevent the agent or manager of a bank, with chief office and branches in one province only, from acting as agent for the placing of hail insurance.

What does this suggest to the mind of even the uninitiated? Simply, that before banks were willing to make loans to prospective borrowers they insisted on having the insurance placed through a specified agency which was remunerative to the banker. To those of us

who have some knowledge of what had developed, it is well known that in some cases, particularly in the matter of hail insurance on the prairies, bank managers were making as much as their ordinary salaries out of insurance premiums at the expense of the legitimate insurance agent.

It would hardly seem necessary to explain that [illegible], was inserted for the sake of the Weyburn Security Bank, a small Bank which has since been taken over by one of the larger banks.

Exposition of Sec. 75
<u>Bank Act.</u>

And now to return to the main part of Section 75, does it not appeal to your Lordship that subsection 1. (c) purposely differentiates from sections (b) and (d) in wording, in order to avoid authorizing the banks to <u>engage in the business of dealing in stocks, bonds, debentures, etc.</u> You will note that section (b) says the bank may <u>engage in and carry on business</u> as a dealer in gold and silver coin etc. Section (d) says a bank <u>may engage in and carry on such business</u> generally as [illegible] to the business of banking but -- section (c) says a bank may deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stocks, bonds, debentures, etc. with no mention of permitting it to <u>engage in the business</u> of dealing in bonds etc. which surely can only permit of one interpretation and that is, that the intention is, and the Act states, that banks may deal for their own

account in bonds, stocks, etc. in so far as it is necessary as a function of banking.

Court of Appeal
B.C. Supports Argument

In support of this interpretation we wish to quote from the opinion of Mr. Chief Justice MacDonald of the British Columbia Court of Appeal. In dealing with the case previously mentioned of Royal Bank vs. Mack he said (B.C.R. Vol XLIV No. 2 page 84).

"It was argued that subsection (c) authorizes banks to deal in negotiable securities, bonds, etc. and while that is true this authority relates to the banks' own dealings in such securities. To hold that a Bank could deal in securities for the profit of the respondent or any other customers would be tantamount to holding that they could carry on a brokerage business which would be contrary to subsection 2 (a) of said section 75, which declares that a bank shall not engage or be engaged in any business whatsoever except such as is authorized by the Act."

As previously stated this opinion was later sustained by the Supreme Court of Canada.

Privy Council Supports
Argument

To carry this matter to the Privy Council for opinions as to the authority of Banks to advise on investments we would quote from the case in 1918 of Banbury vs Bank of Montreal Appeal Cases 626 at pages 702, 3, Lord Parker of Waddington is reported to have said:

"My Lords, in the course of the trial counsel for the appellant admitted that the manager had no general authority to advise - in other words, that

it was not within the scope of the banks' business to advise on investments at large. I take this to include Canadian investments; otherwise there would be no point in the admission. It does not appear why the admission was made. It may have been because the powers of the bank were by statute confined to carrying on a banking business; <u>and it would be difficult to establish that advising on investments was a part of the business of banking.</u>"

Lord Wrenbury in dealing with the same case on page 716 in support of Lord Parker's opinion makes the following statement:

> "There remains only the evidence of Sir F. Williams Taylor" (an important official at the Bank of Montreal. He says that in recommencing investments the manager would be exceeding his authority. My Lords, in this state of things, I am of opinion that there was no evidence of authority, and that the Court of Appeal was right in holding that judgment ought to be entered for the defendants," that is, the Bank of Montreal.

The same view was expressed by Lord Atkinson in this case, pages 683,4 and we submit my Lord, that the banks are guilty of a violation of the Bank Act in engaging as they do in the business of selling securities to the public.

Bond circulars issued by <u>Banks.</u>

In support of the fact that banks are actively engaged in the business of underwriting and distributing securities we have already submitted the advertisement

tember 1, 1933 on which the name of every bank in Canada appears making a public offering of bonds. We now submit for your inspection (Exhibit 5) a prospectus dated June 25, 1928 with the imprint of The Canadian Bank of Commerce $500,000 5% bonds of Panama Pacific Grain Terminals Limited guaranteed by the City of Victoria, B.C. At the time these were issued the members of the British Columbia Bond Dealers Association were opposed, in principle, to the idea of the City of Victoria committing itself to the guaranteeing of these bonds for the purpose of having a grain elevator built in that City. The underwriting of this issue of bonds by The Canadian Bank of Commerce made possible that project.

We wish to submit next (Exhibit 6) a letter dated December 2nd, 1931 from the Comptroller of the City of Victoria reading as follows:

> "Dear Sirs: In reply to your letter of yesterday the City was called upon to advance the half year's interest due on 2nd July last amounting to $12,700. The elevator however has since been leased to the Alberta Wheat Pool and part of the rent is to be applied in repayment of this advance

We have yet failed to see the economic necessity of a grain elevator in Victoria.

Next, let us present a prospectus (Exhibit 7) dated June 22nd, 1929, offering a new issue of ten million dollars, Simpsons Limited, 6% bonds at 100. This also, bears the imprint of the Canadian Bank of Commerce. We here present (Exhibit 8) a regular bond price list of April 15th, 1933 in which these bonds

are listed at 39.50 bid. May we follow this by a prospectus (Exhibit 9) dated three days later of another new issue of five million dollars of Maple Leaf Milling Company, Ltd. $5\frac{1}{2}\%$ bonds at 97.50 with the imprint of the same bank. If you will refer to the price list of April 15th, 1933 above mentioned, you will find that these bonds are offered on that date at [illegible] with no bid.

Bank Commerce
Monthly Bond
List Aug./30.

Next let us present to you (Exhibit 10) a printed circular dated at Vancouver August 2, 1930. This is headed in large type as follows "The Canadian Bank of Commerce Bond Department Vancouver Monthly Offering List." Printed on the front of it in red is this inscription -

> "Investment in high-grade bonds is one excellent method of accumulating a substantial estate. We suggest that to begin a systematic savings plan for investment, it would be advantageous to open with this Bank a special Savings Account, in which you would deposit a certain amount at regular intervals." This is followed in bold type by "Securities Bought, Sold or Quoted."

In this list there is a total of sixty-six different issues of bonds offered. It is interesting to note that three of the issues offered - and which one might be presumed to infer - are to be considered "high-grade bonds" designed to give effect to the Bank's "excellent method of accumulating a substantial estate" are one hundred thousand dollars of Beauharnois Power Corporation, 6% bonds at a price of 100 - Five thousand dollars of

Abitibi Power and Paper Co. Ltd. 5% bonds at 86½ and two thousand dollars Canada Steamship Lines Limited 6% bonds at 93 all of which bonds have since defaulted and are still in default as to interest payments and were quoted in April this year at 40, 15 and 17 respectively.

German Bonds, Chili Bonds 1926.

It is also interesting to note an offering of twenty-five thousand dollars German Government 5½% bonds at 90, since quoted this year, as low as 40. The Government of Chile 6% bonds, which the Canadian Bank of Commerce joined an American Syndicate in underwriting and distributing in 1926 amounting to forty two and a half millions at a price of 93¼, are conspicuous by their absence; Possibly because the bonds defaulted in 1931 and dropped in price of 11 in New York.

Bank Commerce Latest Lists

We are sure we will weary you if we continue reciting the scores of interesting facts about this Bank's activities in the bond business. Suffice it is to let us present to you three of their more recent printed list (Exhibits 11, 12 and 13) dated June 15th, 1933, July 15th 1933 and August 1st, 1933 to demonstrate the determined and aggressive manner in which The Canadian Bank of Commerce is engaged in the business of underwriting and distributing securities.

Ontario Power Service Corporation.

In order to demonstrate the activities of some of the other banks in the bond business we wish to present the facts about the twenty million dollar issue of Ontario Power Service Corporation Limited 5½% bonds maturing 195

In August 1930 these were issued for public subscription by a syndicate whith included five of the nine Canadian banks namely; The Royal Bank of Canada, The Canadian Bank of Commerce, The Bank of Nova Scotia, The Imperial Bank of Canada and the Banque Canadienne Nationale. The big newspaper display advertisement describing this issue upon which these five banks' names appeared, stated that the estimated [illegible] starting 1932-3 and projected into 1938-39, and [illegible] the issue came out in 1930, were to be certain amounts. This forecast of earnings was the only means of judging the value of the bonds, and may we here pay this tribute to the Bank of Nova Scotia, who had not displayed anything like the same aggression in the bond business, as had the other three largest banks; it was largely due to the fact that they were associated with this financing that, many of our members decided to take a participation in this issue and to recommend the bonds to our clients.

Moral effect of banks name.

We are making this statement because we think it is important to show the very great moral effect upon investors, to have bonds offered by a bank which, enjoys such a good reputation for conservatism and dependability. The bonds defaulted on interest payments in less than two years from the date of issue sponsored by even such an imposing group as that above mentioned. There is, however, one feature about having such an influential group involved in an issue of bonds. They were in the case of the Ontario Power Service Corporation, when that company got into such difficulties that it was unable to complete the construction of its power units, able to have

the whole project taken over by the Province of Ontario. Now the taxpayers of that Province are committed to pay the interest on a reduced basis and 90% of the face value of the principal.

Bank of Montreal.

May we now turn to the activities of The Bank of Montreal in engaging in a business which, according to the highest court in the land cannot be conceived to appertain to the business of banking. It is a matter of record in any statistical service that in December 1926 the Bank of Montreal organized The Montreal Company of New York Inc. with capital stock of $100,000. The powers of the company among others were to "underwrite and distribute investment securities." We here present (Exhibit #14) one of their printed lists under date of May 14th, 1928. Directly under the firm name appears this information: "Owned and controlled by the Bank of Montreal." The owning of this Company by the Bank of Montreal is a direct violation of the laws of the Dominion of Canada as contained in the Bank Act; but we shall deal with this matter later.

The Montreal Co. of New York.

This list, by the way, was mailed to a gentleman in Vancouver who has an account with the Bank of Montreal in Montreal and in Vancouver. Accompanying it was a booklet (Exhibit #15). The front is inscribed as follows:

> "The Canadian Securities Manual April 1928. Compliments of The Montreal Company of New York Inc. 64 Wall Street, New York, controlled by the Bank of Montreal."

On the back in large type we have the same inscription, with this added:

> "Directors and Officers - Sir Vincent Meredith Bart. President and Chairman of the Board President Bank of Montreal -- Sir Frederick Williams-Taylor General Manager, Bank of Montreal, E.W. Beatty, Esq. President Canadian Pacific Railway Company ----"

and so on [illegible] the directors.

<u>Investment Suggestions by the Montreal Company.</u>

The list (Exhibit #14) of "investment suggestions" as it is headed is really not a bad one. There are [illegible] issues of bonds offered and six issues of preferred [illegible] three of the bonds are those of Canadian Companies; [illegible] the preferred stock issues are those of American Companies. Most of the bonds have held quite well in price; one declined [illegible] as at September 8th, 1933. The preferred issues also have done quite well, on the whole, with the exception of American Power & Light, 6% which dropped from their offering price of 108 to 25 on September 8th, 1933, having been below 10 this year.

Before leaving the subject of the Bank of Montreal's venture in the [illegible]ican field of underwriting and distributing securities through The Montreal Company of New York, Incorporated, it is interesting to note how this enterprise has fared. The report as of October 31, 1930 to the Annual General Meeting of the Bank (Exhibit #16) shows that the [illegible] had assets totalling $1,833,623.61. It had built [illegible] capital in the company up to $230,313.11 including the original $100,000. but it owed clients, etc. $167,260.44 and had bank loans of $[illegible],050.06 which would appear to be very generous accommodation for a company of such small capital.

In the Banks report of October 31, 1932, (Exhibit #17 ... entire entry for the Montreal Company of New York ...ted was as follows:

> "Cash in bank $1,000. Capital Authorized and issued 1000 shares at $1.00 each $1,000.
> Note - This Company's activities have been discontinued. The capital stock is entirely owned by the Bank."

We have failed to find in the report of the Bank any further reference to the Company.

National City Co. Ltd. Booklet.

The same gentleman in Vancouver received about that time another interesting publication in the form of a little booklet (Exhibit #18) undated, entitled, "Putting Your Dollars To Work."

"The National City Company Ltd."

Now you might wonder what connection there can possibly ...een having a credit balance in the Bank of Montreal ...ational City Company Limited; but let us examine this booklet. The first page reads as follows:

> "To assist investors in placing their surplus funds securely and profitably at work we are setting forth briefly in this booklet the fundamentals of a sound investment policy. The National City Company Limited, Charles E. Mitchell, President, President The National City Bank of New York Norman L.C. Mather Managing Director."

Then follows a list, which is prominently displayed, of the Advisory Board, namely:

> "Sir Charles B. Gordon, G.B.E. President Bank of Montreal, President, Dominion Textile Company Ltd. Director, ... Royal Trust Company. Sir John Aird President, the Canadian Bank of Commerce, Director National Trust Company, Director Western Assurance Company, Director, Imperial Life Assurance Company of Canada. W.A. Black, Esq. President, The Ogilvie Flour Mills Company Ltd. Vice President, Abitibi Power and Paper Co. Ltd. Director Bank of Montreal, Director Canadian Pacific Railway Company, Director, Dominion Textile Company, Ltd.

A.J. Brown, Esq., K.C. Director The Royal Bank of Canada Director, The Montreal City & District Savings Bank. Vice President Montreal Trust Company. Hon. Sir Lomer Gouin, K.C.M.G. Director Bank of Montreal, Director The Montreal City & District Savings Bank, Director The Royal Trust Company, Director, Laurentide Company, Ltd. Wilmot L. Matthews, Esq. Director, The Dominion Bank, Director Confederation Life Assurance Company, Director, The Toronto General Trusts Corporation, F.E. Meredith, Esq., K.C. Director, Bank of Montreal, Director, Canadian Pacific Railway Company, Director The Montreal City & Distric Savings Bank, Director The Bell Telephone Company of Canada Ltd. Lt. Col. Herbert Molson, C.M.G., M.C. Director, Bank of Montreal, Director The Royal Trust Company. Edson L. Pease, Esq. Vice President The Royal Bank of Canada, Director Montreal Trust Company, W.N. Tilley, Esq., K.C. Director, Canadian Pacific Railway Company, Hon. J.M. Wilson, Director, Banque Canadienne Nationale."

Bank Directors in List.

We think it may be truly said that it is remarkable, that with one exception, the members of this Advisory Board are directors or officers of Canadian Banks. The one exception, according to this list is Mr. W.N. Tilley who has since become a Director of the Bank of Montreal.

Article in Fortune re National City.

Speaking of the National City Co. Ltd. we wonder if the distinguished gentlemen of the Advisory Board [illegible] company saw this reference in an article in the American publication called "Fortune" under date of July, 1933, to the parent company, The National City Company. In an article entitled "Kreuger III" on page 74 the following appears:

"There was, for instance, the now well known example of the National City Bank which, while closing out the accounts of its old customers during the crash and forcing employees to pay in depression dollars for stock bought at boom prices, lent $2,400,000. (of which only five per cent has been paid back) to its own officers to support their market commitments; And there was also the bonus of $3,400,000 over and above salary paid by the same bank and the National City Co. to Charles Mitchell in 1927 and 1928 and 1929."

National City and Minas Geraes.

The article continues:

> "And there was also complacence about the sale of securities. The National City Co. may serve as an example. That house underwrote in September 1929, in conjunction with Henry J. Schroeder & Co. of London, an issue of $8,000,000 of bonds of the Brazilian State of Minas Geraes. The underwriters knew that the State of Minas Geraes had defaulted on $42,000,000 of its bonds marketed in London and Paris from 1907 to 1916. They presumably knew that George F. Train of National City's Foreign Department had written in April, 1927, a letter stating that 'the laxness of Minas Geraes finances is almost fantastic' and that 'it would be hard to find anywhere greater ineptitude, negligence and carelessness in the handling of its external loans.' They knew that the real purpose of the $8,000,000 issue was 'partly with a view to' repaying the National City Co. for earlier short term advances to the State amounting to $4,000,000. And yet National City issued a prospectus certified to by Mr. Train declaring that the purpose of the issue was to increase 'the economic productivity of the State of Minas Geraes' and stating that 'prudent and safe finances had been axiomatic of successive administrations in the State of Minas Geraes.'"

Canadian Bankers' Names used for American houses.

Your Lordship and Gentlemen, what a vista of possibilities such a state of affairs presents! We will not attempt to tie in to Canadian financing some of the unpardonable abuses resorted to by American banks and their security distributing affiliates. Suffice it to say that it must be considered regrettable that Canadian Bankers lent their names to American controlled houses, no doubt for the purpose of distributing - shall we call them securities - to Canadian investors.

American Banks Quit Bond Business.

In leaving the matter of the National City Co. Ltd. we think that it is in place to say that that Company has discontinued its selling activities in Canada,

we suppose to the fact that through the sweeping ... on of the feeling on the part of the American public towards the idea of banks exploiting their positions as they have in the past through their positions as they have in the past through their security selling affiliates - the American banks are divorcing themselves entirely from that line of activity and attempting to return to the position, long ago abandoned, of again having a banker's outlook on business.

Canadian banks still aggressive.

In order to show that no such step appears to be contemplated by Canadian banks may we add to all the evidence previously related just these two exhibits ... and 20) - a printed list dated April 1933 headed ... nt Securities, Current Quotations by Bank of Montreal," offering a mixed list of 36 different bonds and a page from the "British Columbia Financial Times" dated May 20, 1933 in which this display advertisement appears - "Investments. The services of our Bond Department are available at all times - the Dominion Bank Vancouver Branch" etc.

And now, to refer to the subject of Canadian Banks having a partnership interest, whether by control or otherwise in any other business; not only would such an idea reduce the relationship of the bank to its depositor to an absurdity, but also it is diametrically opposed to the wording and the spirit of the Bank Act. ...er the ridiculous position of asking business men ...t their money in the bank for the purpose

of providing that bank with funds with which to compete with that business man in his own line of business. If a person were to find that one particular bank was engaged in his own business even if it were through its interest in the shares of another company, would he not, other things being equal, remove his funds to another bank? If eventually he is unable to find a bank in his own country that is not competing with him, we would think that the tendency, so far as surplus funds are concerned, would be to keep them in the bank of some other country.

Banks should be Lenders.

Surely one of the functions of banking is the pur[illegible] of credit, and if our Canadian Banks are to be [illegible] to retain a partnership interest in any business, does that not immediately s uggest a condition of discrimination between legitimate borrowers? How, My Lord and Gentlemen, can the Bank of Montreal justify its interest in the Montreal Company of New York Inc.? True that Company is unoperative at present, but if the underwriting and distributing of American securities should become again attractive what is to prevent the Company becoming as active as ever?

If the Bank of Montreal is permitted to have such a partnership as that, what is to prevent that company in turn owning partnership interests in other Companies, whose functions are still further removed, to quote [illegible] Bank Act from "such business generally as appertains [illegible] business of banking."

Definition of The business of Banking.

It might be interesting at this point to quote from the 1907 edition by Dean Falconbridge, aforementioned.

: book on the Canadian Bank Act on page 131 under th

. "Business of Banking" he gives a definition from

... Banks and Banking 4th ed., 1903 Sec.46 A as follows:-

> "The heart of the law of banking is that a bank has such powers as are requisite for the safe and convenient attainment of the purpose of its incorporation, the chief of these being to provide a place of safety in which the public may keep money and other valuables, and to lend its own money and that of others deposited with it (unless specially deposited) for a profit, and act as agent in the remission and collection of money. If it is by its organic law, a bank of issue, it has one more fundamental purpose, namely, to provide the public with a convenient currency in the shape of promissory notes intended to circulate as money."

You will note that the bank's function is to lend money and no one would seriously contend that taking a partnership interest in a business is lending money.

No new Banks for 33 years.

To demonstrate that it is becoming increasingly difficult to compete with the power and the influence of the banks in Canada, it seems a significant state of affairs, that in spite of the fact that there is probably no type of business in Canada which is so consistently profitable as is banking, and in spite of the tremendous financial and industrial growth of this country since the beginning of this Century, there has not been one bank start since 1900 which is still in business today (with the exception of the establishment of Barclay's Bank, owned by the Parent Bank in England). The Provincial Bank of Canada started in 1900 and the next youngest bank in existence in the country is the Imperial Bank of Canada, founded in 1875.

Number of Banks reduced 50% since 1919.

We do not think that the same can be said of one other business or industry. Certainly there have been untold millions thrown into the pulp and paper industry; the same is true of the lumber industry, the power industry, the fishing industry, the grain elevator business [illegible] mining industry. Every possible brokerage and financial business has had hundreds of new firms start and prosper, but when it comes to the banks, we find that there are actually only half as many banks today as there were in 1919. The Home Bank closed its doors and the Weyburn Security Bank was taken over as above mentioned. In 1919 The Bank of Nova Scotia amalgamated the Bank of Ottawa. In 1922 The Bank of Montreal absorbed the Merchants Bank of Canada. In 1924 The Canadian Bank of Commerce acquired the Bank of Hamilton and the Bank of d'Hochelaga (now Banque Canadienne Nationale) absorbed La Banque Nationale. In 1925 The Royal Bank merged the Union Bank of Canada and the Bank of Montreal acquired The Molson's Bank. In 1928 The Canadian Bank of Commerce acquired the Standard Bank of Canada.

Whatever the circumstances under which these various mergers and acquisitions took place it is obvious that, if the period of the next fourteen years relates the same story, we shall only have four or five banks left by that time. Such a state of affairs tends increasingly to concentrate in fewer hands power and influence both economic and political, which might easily become undesirable from the standpoint of the country as a whole.

Total Resources of Banks three billions.

When you consider that the total assets of the nine banks in Canada as they appear in the Financial Post Survey of Corporate Securities of Canada (1933) is $2,945,235,000 while the total capital, reserve and surplus, or in other words the shareholders investment in the Banks is only $310,945,519., you will see that by representing the shareholders the directors control resources of nearly ten times the amount of money which those shareholders have invested. When in addition to that you find the directors of the banks appearing on the directorates of practically every company in Canada of importance, you get some idea of the tremendous power of those directors. For example, referring again to "The Survey of Corporate Securities." out of a record of the 250 Canadian companies with assets of over two million dollars, as shown in that book, one hundred and fifty one of them have bank directors on their directorates and the assets of those companies total over $5,500,000,000., those of the ninety nine companies having no bank directors only total less than $1,000,000,000.

Total Resources of Companies which Bank directors influence - 5½ billions.

It might be asked what bearing these statements have on the matter in hand, the point is to demonstrate that, largely through the power given to the Bank Directors, through directing the wealth of the depositors in Canada, the influence of the same small group, and the total directors in our nine Canadian banks is only 158, extends to other resources totalling considerably more th

twice the resources of close to $3,000,000,000. of the nine banks. The figure of $5,500,000,000. is by no means the total of the assets of companies influenced by bank directors because the Trust Companies, insurance, mining and smaller oil companies as well as the hundreds of private companies have not been included in that figu

Influence of Directors.

To say that those directors have no particular influence on the policies of the companies would seem unreasonable, particularly where you find, as in the case of the Canadian Pacific Railway Company that 72% of the directors are also bank directors and in the caso of Consumers Gas, 60% are also Bank Directors. Brazili Traction has 50% and Shawinigan Water & Power 42%. We think it must be conceded that the influence is consider able. Al o, t ore is the other feature of attempting tc restrict the activities of the banks in other businesse: It would be entirely futile to consider that anything effective had been accomplished if there is not going t some control over the matter of interlocking directo:

Bank of Montreal and Royal Trust.

For instance, to say that there is such a close alliance between the Bank of Montreal and the Royal Trust Company that it would be quite a wasto of time for other trust companies to solicit business from the Bank of Montreal can, we think be easily demonstrated, The influence here, which is a matter of record, is tha of the twenty four directors of the Royal Trust Company, fourteen are also directors of the Bank of Montreal and there is only one director of any other bank on the boa

Royal Trust and Royal Agencies.

What other relationship there is, we have failed to discover as the statement to the shareholders of the Bank of Montreal does not reveal any investment in the Royal Trust Company. The same applies to the relation of the Royal Trust Company to the Royal Agencies, through which the Trust Company puts practically all its insurance business. The records of the Registrar of Companies in Victoria show that, of the six officers of the Royal Agencies, one is the General Manager, one is the Assistant General Manager and one is the Superintendent of Branches of the Royal Trust Co! You will recall the steps that were taken in 1923, as above stated, to arrest the movements of the Banks into the insurance business. You can readily see how such legislation is rendered ineffective by the development of interlocking directorates.

Widespread influence of Directors of Recent Development.

This tendency for Bank Directors to sit on the Boards of practically all the companies of any importance that are customers of the Bank only seems to have developed in the past fifteen years or so, and in the United States the re-action to such a development has been to have many important people, even in Banking circles, advocate for legislation prohibiting Bank Directors from serving on any other directorate, and while this may seem rather extreme, it is by no means so extreme as the limits to which the situation has developed in the other direction at the present time, with one

Bank Director appearing on the Boards of 26 of the two hundred and fifty companies examined, as before stated, and probably scores of other companies not included in the survey.

Difficult to compete with banks.

The seriousness from the standpoint of the legitimate investment house or broker, of having the banks invade the field of retailing securities need hardly be emphasized when it is considered the tremendous advantage which attaches to having direct contact with those who have funds to invest. When you add to that the fact that the banks can also practically dictate to borrowers when and at what price they shall sell their bonds, there can be no doubt of the potentiality for harm. To express it in the terms of a Professor of Economics in one of our Canadian Universities in commenting on the subject, in a letter in November, 1932, he writes -

University Professor's observation on banks in Bond business.

"The advantage of having a specialized group of business men whose function is to test the merits and judge the investment potentialities of certain types of financing, whether governmental or industrial, is that their expert knowledge and experience are invaluable alike to the public as to the enterprise itself. Banks have not always the men or the time to make an expert analysis of the whole investment field; their chief advantage is that they have a direct contact with those who have funds to invest.

know them but because they have this unique opportunity that is no reason why they should exploit a trust which is built on entirely different considerations or arrogate to themselves an expert knowledge which they do not often possess. They are departing from their true function which is to hold the balance in the credit structure of industry as a whole and not to become directly interested in certain or particular financing jobs. If they could do this service as well or more cheaply than other people, then there would be a case for their extension of function but our experience of bank bond-selling gives us no assurance on either of these counts."

Unfair competition of banks.

When you couple with all these considerations the fact that the nature of the competition from the banks is often of the most unethical and demoralizing possible, such as the statement that the banks can handle the business at a lesser cost to the investor, or, in times of business disturbance, by the insinuation that it is unsafe to deal with the regular investment houses, it is extremely difficult to combat their encroachment on accounts that have for years dealt with the investment houses.

Complaints of unfair competition.

There have been innumerable complaints to our various organizations, of banks persuading investors to purchase or sell bonds through them after an investment house has sold a client on the idea and the client

is simply going to the bank to arrange the banking details, such as getting a cheque marked or getting the bonds from the safety deposit box. Another common cause of complaint is the expressed resentment on the part of [illegible] at seeing cheques for large amounts in favour of investment houses going through customers' accounts. It requires no great imagination to visualize the scores of ways in which the banks can, and we are sorry to say do compete with investment houses.

Bank of Toronto Circular Letters.

As an example of the type of soliciting of investment business by banks with which it is difficult to compete and which at the same time is a direct violation of the Bank Act according to the various judgments handed down in all the courts, including the Privy Council, see cases quoted above, we are submitting herewith (Exhibits Nos. 21-22) two original circular letters on the Bank of Toronto letterhead and signed by two different branch managers in Vancouver of that Bank. The last two sentences read -

> "It is not possible for anyone to have all the necessary information available to enable him to make a wise decision when an investment is offered and we invite you to make use of our Investment Department which is specially equipped to serve you in this connection. The Bank does not authorize its Managers to advise the purchase of speculative stocks but you can at all times, through our Investment

Department, obtain reliable information and advice dealing with high grade securities.

INVESTIGATE BEFORE YOU INVEST

Yours truly,

(Signed)

____

Manager.

That this was not just the idea of one Branch Manager is demonstrated by the fact that we have here two letters identical in every respect and mailed out different branches, signed by different managers.

Do the Banks help the issuer of Bonds?

In conclusion let us examine the value to the borrowing institutions of having the Banks engaged in the business of selling securities. In the first place, one of the most bitter complaints by Bond houses is in regard to the banks' failure to attempt to make a secondary market for an issue once it has been originally distributed Where Bond Houses have joined Banks in distributing new issues, this very important part of the technique of properly placing issues is left to the Bond Houses. The confidence of the investing public is soon destroyed if, after buying a bond they are unable to sell it if they find it necessary to do so, and the advertising and energy required to find new buyers to relieve the original purchase is an expense which the sponsoring group is expected to bear. Banks could not be expected to throw themselves into an operation of this kind for many reasons and the result is that either the issue is not supported, or else the brunt of the secondary market falls upon the bond house.

The handling of Dominion loan 1923.

The handling of the Dominion Government Loan of Two hundred million dollars in 1923 mentioned previously in this Paper, as not having included any banks in the [illegible]lling agreement group, was one of the most satis- [illegible] and generally successful pieces of financing which has ever been carried out in Canada, apart possibly from Victory or other Loans which had a patriotic appeal not pertaining to peace-time issues. The management of that issue was in the hands of the bond houses and we submit that Government and other loans will again be satisfactorily handled not only to the borrower but also to the investo[illegible] when the banks return to their proper function of bankers and not b[illegible] [illegible]lers.

Banks [illegible] n but not [illegible]lers.

The importance of the banks to the distribution of all large bond issues, cannot be denied, but the [illegible] applies to their assistance in the movement each year [illegible]a's grain crop. It would be entirely impossible [illegible] our wheat each year without the support of the banks for which they receive proper remuneration but no one suggests that, in assisting in that important banking operation, it is necessary for the banks to engage in the business of selling grain and we most sincerely believe that the same applies to the distribution of Government or any other bond or stock issues. Let the Banks confine themselves to their functions under the Bank Act.

Respectfully submitted,

[illegible] BRITISH COLU[illegible] BOND DEALERS ASSOCIATI[illegible]

per (Sgd.) G. Lyall Fraser.

B R I E F

submitted by

THE LETHBRIDGE BOARD OF TRADE

LETHBRIDGE, ALBERTA

TO

THE RIGHT HONOURABLE LORD MACMILLAN, CHAIRMAN, AND MEMBERS OF THE ROYAL COMMISSION ON BANKING AND CURRENCY

May it please your lordship and gentlemen of the Commission.

The Lethbridge Board of Trade desire to take this opportunity of making certain representations to the Royal Commission having in mind the wide powers granted the Commission to investigate such matters as they may deem desirable to promote the revival of trade and enterprise and to facilitate Inter-Imperial and International co-operation for the purpose of raising the level of commodity prices and for the purpose of ensuring increased domestic employment and the stability of the economic, financial and social institutions of this country.

We recognize the valuable services rendered by the Canadian banks in financing the grain crops of western Canada thereby enabling our people to secure an immediate cash advance for their products. We also appreciate the confidence of our bank depositors in the security of our banking institutions and realize that to do anything that would tend to break down that confidence would be of serious consequence to our entire financial structure; and we realize further, that the confidence of the depositors is an asset of national life that must be maintained and is considered in any suggestions which we may have to offer.

There is evidence in this Province of the withdrawal of capital as a [illegible]ult of lost confidence through the enactment of legislation jeopardizing the security of the investor, and believe that an effort should be made to have the Provincial Governments rescind legislation that militates against the security of capital, thereby re- [illegible]ing in a large measure, security and confidence which [illegible] the foundations for credit and which have, in recent years, been almost completely ruined by Provincial legislation in Western Canada.

We are also cognizant with the danger of placing credit and investment facilities in the hands of political parties who happen to hold public office, as evidenced by the position of some of our Provincial Governments in Western Canada as a result of their management of their Sa[illegible]rtificates Departments and Credit Societies.

We are also aware of the danger of long term contracts becoming frozen and weakening the whole financial structure of our banking institutions. It must be realized [illegible]sible to expect farmers and others doing a season- [illegible]s, to liquidate their obligations until crops are harvested, steers finished, etc., and a reasonable leeway for the marketing of such products. We submit, upon abundant evidence, that scores of reliable farmers and business men, bearing their own credit burden, but formerly contented citizens of the Dominion, have, through this lack of elasticity in their banking arrangement, been forced to make killing liquidation with the banks resulting in a terrible discontent that is seething for an outlet to strike

at what should be considered our sound, stable financial [illegible]ernmental institutions. We have reason to believe [illegible] any such instances that the Banks, as banks, are not primarily to blame, but the fault lies in the personal whims of what we call transient local managers. We recognize, as before stated, that curtailment of Western credit has taken place as a result of Provincial legislation effecting the stability of contracts and the safety of investments.

Having in mind all the matters referred to above, we respectfully submit for your consideration the following.

<u>No. 1.</u> [illegible] there is an apparent anomaly in the Dominion Government [illegible]gh the Finance Act, granting the banks authority to issue currency to the Government and thereby enabling the banks to obtain Dominion Government [illegible] which has resulted in giving the banks a substantial [illegible]thout rendering any services apart from the print[illegible]penses involved. We suggest that Bank Charters are a license granted by the people of Canada through their Government, and that on occasion of national financing the banks' services should be conscripted and this service rendered to the nation at cost.

<u>No. 2.</u> That we believe it is not in the interest of our banking institutions in allowing Bank Presidents and Directors to hold multiple directorships. As a result of this situation [illegible] of banks have [illegible] used to promote industrial enterpri[illegible] regard to actual production requirements but chiefly for private profits and thereby jeopardizing the safety of the bank's investments and [illegible]ting an unfortunate condition through over-expansion.

No. 3. That banks have taken advantage of the pub confidence to accumulate profits by creating credits beyo their paid-up capital. We hold bank profits from credits of this nature are in a different class than are the profi from their own invested capital and should be, in part at least, the property of the Government of Canada or used f the purpose of lowering interest rates to borrowers. It is interesting to note, that having regard for all the losses involved in the banking business, our banks have be able to build up enormous reserves, build palatial structu throughout the country and regularly pay large dividends. We do not believe this could have been done through the invested paid-up capital of the banks but has been made possible by this pyramiding of credit based solely on public confidence, of which the banks have been the chief beneficiaries. We believe the time has arrived when cheaper money must be made available to the public. There appears nothing unusual in this requirement particularly during a period of re-adjustment. It is a contribution the banks can well make, in view of the notorious fact that their earnings in the past have not been based on their own capital solely, but upon the extensive pyramidir possible through public confidence in the governmental supervision of our banking institutions. We have always endeavoured to control the issuance of dollar bills and a planning to control them still more strictly, but we have made no apparent effort to control the credits above referred to. The recent $35,000,000. advance secured by the Government from the banks not only created the possibility of an approximately $300,000,000. extension of

bank credit, when a if the outlet, backed by adequate collateral is found for it. We believe the speculative boom of 1929 was largely financed through abuses of public lence credits. We further believe that if any progre e made in mastering the forces of economic life, th credits must come under some kind of control.

NO. 4. That consideration should be given to the exercising of more drastic control over the capitalization of Corporations selling stock to the public. The lack of proper supervision has resulted in the creating of corporation debts far in excess of their value. This lack of proper supervision has created a fertile field for professional promoters to build up Companies to unload on the public price in excess of their valuation. We consider this the greatest evils existing in the country and has contributed very much to our present difficulties. Over-capitalization, watered stock, need to ted drastically if we are to restore confidence with t g public. Unfortunately some of our banks, throug directorships, have much to do in the promotion over-capitalized Companies. Attention need only be drawn the heavily over-capitalized Pulp and Paper Companies in t Dominion of Canada. Unfortunately bank officers have sometimes allowed their names to be used by these Companies t by attracting the public to invest without even investiga the prospects of the Company itself. When the collapse comes the banks not only lose their money but the public confidence those who direct them, is lost. We believe that there should be some provision in the Bank Act to separate bankers and bank directors, from Company promotion. As long as the banks can be used by Company promote

for their o... the public is not going to have confiden in the banks a... h... bound to be constant agitation fo radical control of them. The desirable thing, in our opini would be to get the various Provinces to agree upon Federal legislation that would effectively control capitalization ... motion of Companies. As the situation stands at pre... Provinces, as well as the Dominion, can incorporate Companies and we can never have effective control of capitalization until there is uniformity in our laws.

No. 5. There seems to be a general belief in Western Canada, that the New York money market exercises too much influence on exchange dealings between Canada and London. Australia and New Zealand banks make clearances direct with London, as do also Cape Town and Bombay. Canadian tr... ...ons with the Mother Country are all cleared thro... ...York. Why cannot they be cleared direct? One of Canada's hopes is that there will be a large increase in our exports of beef, bacon and dairy products to the Old Country; this, with our wheat exports, ... tremendous total of clearance. If imports from ... her Country grow in proportion there should be some way that clearance of trade paper could be made direct.

No. 6. Recently the Provincial Government of Alberta paid 5.52% on a Million Dollars Refunding Loan. Western Cities are finding it difficult to borrow at any price. While this may indicate too heavy borrowing in the past, it would seem that the borrowing for Public Works, which constitute an asset to the whole Dominion, might well be concentrated in a Federal Bureau, which bureau would have some supervision over all Governmental borrowing,

Dominion, Provincial and Municipal. Certain Provinces and Cities are paying such a high figure for money being borrowed at the present time that it will constitute a drag on their finances for many years to come. In Alberta the Public Utilities Board act as a check on borrowing of the Towns and Cities but there is no check on the Provincial Government itself.

NO. 7. We believe that all banks operating in Western Canada should have Western officers to control Western credit, for Western officers would undoubtedly be in closer touch with local conditions and would maintain a more sympathetic attitude towards Westerners than could be expected from Eastern credit managers. Further, the frequent changes made in local bank managers, bringing in men with little experience in the locality to which they are assigned, tends to retard business development as these managers have to get acquainted before they can make arrangements for even temporary loans.

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We respectfully point out to The Commission, that in common with all the people of Canada, there is in Southern Alberta, an intense interest in the work upon which you are engaged. The people are hoping for the results of your findings to bring benefits of individual and national importance. This is manifest in the desire of our business and commercial leaders rendering us every assistance in preparing our submissions.

The subheads following relating to particular industries have been prepared under the guidance of such leaders.

Milling Industry

[illegible]

[illegible] find that the banks are demanding considerable more securities than they have in the past, before they will effect loans. Liquid assets are shown in business concerns of two to one and yet banks are demanding securities outside of this equal to line of credit granted.

ADVANCES

Advances are made on grain from time to time equal to about 7[illegible] [illegible] the current value. This, in our opinion, is not suffic[illegible] [illegible] conducive to [illegible] business and should be extended to [illegible] [illegible] the parties have other securities available.

RATES

Interest rates have not generally been reduced to [illegible] man or individuals in the last twenty years alth[illegible] [illegible] banks have had a reduction of from 3 to 2½%. No part of this has been passed on to the business man although their earning power has been considerably reduced. It is a known fact that banks have maintained their earning power as in the past.

COMPOUND INTEREST

We find that grain firms are compelled to make settlement of interest each month. Therefore, interest rates, based [illegible] [illegible] rate, would exceed this rate by about a quarter t[illegible] [illegible] of 1%.

EXCHANGE RATES

We consider these excessive as there have been no material reductions during the last twenty years.

DRAFTS

Drafts sent out for collections are frequently returned with the notation "No response to notice", when as a matter of fact few, if any, drafts are ever presented. Banks rely on the simple method of sending out notices by mail and if not responded to, they return them to those who issued the draft with the notation "no response" when as a matter of fact, a little more effort on the part of the banks would bring better results.

DISCOUNTS

Ban[illegible] charging about one-quarter of 1% on documents discount[illegible]. [illegible] think that this is excessive.

INDIVIDUAL LOANS

At the present time banks have become so tight in their dealings with individuals that few men can obtain [illegible]odations. This seriously retards business arrangements, especially during the harvest season when farmers cannot even obtain binder twine to harvest their crops. Corporations have been called upon to step in and make advances that ordinarily should have been handled by ban[illegible]

DEMAND LOANS

Grain firms are frequently, if not as a general ru[illegible] required to give demand loans. This puts individuals and business men at the mercy of local managers without any recourse [illegible] is hard to get in touch with the superior[illegible] in banking [illegible].

CAPITAL EXPEND[illegible]

Money received on capital accounts and placed in [illegible] bank loses its identity and when it becomes necessary to [illegible]end money for capital improvement, banks frequently h[illegible] [illegible]allowing this expenditure. That the practice of d[illegible]

ing interest from the face value of loans when made is unjust, interest is not earned until due, and should not be collected from the borrower at beginning of loan.

On the whole, we recommend a more liberal allowance by banks to individuals and firms, either through the banks themselves [illegible] the Government so that worthy enterprises might be en[illegible].

[illegible] INDUSTRY

The Coal Mining Industry of Alberta has been an important factor in the development of the Province, [illegible] second in capital investment and labour employment, [illegible] Agriculture only. Today, however, it would be difficult to point to any mining enterprise in the Province that is making a success [illegible] present conditions, and even more difficult to point to any satisfied group of mining employees.

Within the past four years the output of Alberta mines has dropped fully 50%, and with the huge capital investments standing idle and employees not getting sufficient days work p[illegible] to earn a livelihood, the discontent that reigns [illegible].

The positi[illegible] have taken in protecting themselves has added gr[illegible]tly to aggravate the distressing conditions that prevail. Where assistance has been granted [illegible] to a customer, it is quite common for the bank to [illegible] the customer's assets, even to ten times the value [illegible] the assistance given, and in this way prevent the customer from meeting his obligations to the trade. In this way the banks have curt[illegible] business as they not only hold the customer's assets, but grab every dollar that is being

paid to his account, which proves the banks are not operated for the benefit of Canada, but for the interest they can earn their stock-holders.

It is a peculiar fact that the part of Canada that is most highly industrialized is the part in which no coal is produced, and it is with envy all coal producers look to this "ac[illegible] Zone" as it is sometimes named. Around seventeen milli[illegible] tons of coal have to be imported annually to supply th[illegible] needs of Ontario and Quebec, which, due to the proximity to the United States coal fields, has been mostly supplied from that source.

The Dominion Government, recognizing the extreme [illegible]s with which the coal industry is faced, has endeavoured from time to time to assist by granting subventions and special freight rates to points in this "Acute Fuel Zone".

For various reasons the advantages offered by the Dominion Government have to a certain extent been annulled until today the industry in Alberta is in a worse plight than ever.

During the past three years a fair amount of Alberta coal was market[illegible] n Ontario, and to further this the Dominion Government [illegible]e again reduced the special freight rate, but owing to unsuitable coals being sent, the reduction in price by United States Operators, and the discrimi[illegible]ting threats of United States coal salesmen, the demand [illegible] Al[illegible]rta coal is again gradually disappearing.

All these obstacles could well be overcome, and prosperity brought to the Coal Industry, which in turn would reflect throughout the entire Dominion.

Industry. The Railways would be set to work, employees would be in a position to purchase farm produce, and money that is at present handed out in relief would not be necessary.

Mining costs have not been reduced with the general trend of the cost of living, due to the limited number of days worked in the year with increased production general costs would naturally be reduced so that the savings effected could be passed on to minimize the burden of tran porting the coal.

We recognize the distance from Alberta to the "Acut Fuel Zone" is great, and the problem of successfully trans- porting coal considered impossible, but items that were considered impossible a year ago are today quite feasible. It is quite evident something must be done, so we respect- fully submit for your consideration the ideas as outlined above.

SUGAR BEETS INDUSTRY

The Provincial laws of Alberta forbid a lien on a growing crop resulting in the banks giving practically no assistance in the production of sugar beets. The financing of the crop is done mainly through Provincial Sugar Beet Co-operative Credit Societies.

In the face of universal demand that primary pro- ducers receive greater compensation for soil products, it seems to us that a tax which curtails the use by domestic consumers of such home grown products should be immediately adjusted.

Our information is, that the recent 2¢ per pound tax on sugar has resulted in curtailment of its use of from 10 to 15%.

We suggest that Canadian producers or manufacturers of sugar should receive a draw back of at least 1¢ per pound of this tax. We believe that such adjustment will be immediately passed to the Canadian grower of sugar beets and we submit is consideration most essential to an industry that is just establishing itself in this Province.

We submit that the curtailment of the use of sugar touches other producers (fruit growers) and manufacturers (glassware) in Canada without effecting the cost of sugar to the consumer.

WHEAT GROWING

Wheat is the most important primary produce of this Dominion and particularly of Western Canada; its production and export have contributed in a large measure to the prosperity and wealth of the Eastern industrial centres of this country. We submit that Canada as a whole cannot be prosperous with any prolonged curtailment of wheat production, or with the selling of this product at a price below cost of production.

A solution for its marketing cannot be obtained through local agencies - that constant effort for its wider sale must be the continued objective of the Dominion Government. While we believe the Government is extending some effort in this particular, we do most earnestly urge its continued application to the task, touching as it does the whole basis of our future welfare.

Eastern Canadian industrialists cannot expect to find a market in Western Canada for their products under the present prevailing conditions and it is of vital importance to the Eastern manufacturers that they extend

sympathetic and earnest consideration to the solution of this important problem.

While we are aware of what is being attempted by the Dominion Government and need not add our local views of how it might be advanced, we must however, touch on a purely local situation, that being the fact that the Government have expended approximately $1,000,000 in completion of an Internal Storage Elevator at Lethbridge, and no use whatsoever has been made of it since its erection two years ago. Local thought is that it could at least be leased to, and made use of by one of the larger line grain buying concerns operating in this district.

LIVESTOCK INDUSTRY

Looking over the field of agriculture generally it does appear that Canada has now come to the time when a change in [illegible] pertaining to agriculture should be adopted. Our Government, [illegible] financial interests have played an important part of late in curtailing the wheat averages in Canada without giving any consideration to the improvement of other lines of agriculture, particularly livestock, [illegible] replacement of same. Livestock in Western Canada has played an important part in the past forty years. We now find, however, that the livestock industry generally is in a most deplorable condition, and ranchers (cattle and sheep) particularly, are faced with disaster unless some assistance is rendered in the way of more finances and wider markets, for this line of product.

During the past three years efforts have been put forth in Canada to supply Great Britain with livestock, finished in such a way as to command the attention of the

British buyer. The results obtained therefrom have been quite satisfactory, although the volume of livestock finished has not been great enough to take care of the surplus existing in the Dominion of Canada. This is due to the fact that producers find their financial position is such that they are unable to keep up the standard of their breeding stock, and further finish the stock to where it will meet the requirements of the British market.

One of the great needs of the livestock producer is a well defined organization to handle their products, one which would be in contact with banks and other financial interests. At the present time we have no practical system of marketing livestock. It is true that we have livestock market terminals under the supervision of our Dominion Government. In contrast tothis, however, we have a great combine between packers and buyers of livestock products, and this appears to completely control the terminal markets, leaving producers in a very helpless situation.

The cattle industry, and the sheep industry in Western Canada today faces disaster. Great Britain is asking for Canadian grain fed beef, but with the shortage of pasture generally this year, both in Eastern and Western Canada, coupled with shortage of money, and with a limited amount of credit being allotted by the banks, there is every possibility that thousands of Canadian cattle will be sacrificed on the Canadian markets during the next year. These cattle should be in the feed lots and finished for export to Great Britain.

The importance of feeding livestock in Canada should not be overlooked, and we should like to point out that in Southern Alberta last year some 2000 head of cattle were

finished by being fed on wheat. It is safe to estimate that these cattle consumed 2000 pounds of wheat per head, making an approximate total of 200 tons of wheat turned into beef, instead of being placed on an over supplied market.

The value of these cattle, going to the feed lots, could not be placed at more than $20.00 each, while their value when [illegible] h d and sold averaged $40.00 per head, thereby incr[illegible] amount of wealth distributed in the districts where the cattle were fed, by 100%.

There should be no doubt as to the security in the financing of livestock thus being finished, under a proper [illegible]ed system, and every encouragement should be [illegible] our Government and banks to develop this industry, and encourage ■ higher standard of quality, a quality that will command the attention of the British buyer.

Owing to the fact that markets to the south of this country are shut off by high tariffs we must look to an export market in Great Britain, and can only supply that market when we are in ■ position to meet their demands.

Great efforts have been put forth by our Governments and livestock interests generally in regard to the hog industry [illegible] the past two years, and we would say that very satisfac[illegible] results have been achieved in connection with hogs, and we believe that the same effort should be put forth as regards cattle and sheep.

. . . .

In conclusion, we do not find it possible to make any definite recommendation as to the kind or nature of operation of a Central Bank for Canada. Public opinion

in this section of Canada has not become definitely fixe in this regard, except in so far as there appears to be very definite desire that Canada have such an institutio There appears also to be widespread respect for the personnel of the Commission and faith that its Members are capable and will be sincere in bringing in a finding in this regard that will be in the best interests of Canada as a nation in her own future development and enable Canada to take her proper position without handicap in th world scheme of finance.

Holding these views and repeating our confidence in the Commission, our submissions are forwarded in the hope of assisting in some measure the work of the Commission.

Farm and Ranch Review.

Calgary, Alberta,
30th August, 1933.

TheSecretary,
Royal Commission on Banking,
Ottawa, Ontario.

Sir:

I submit the following brief observations for [illegible]ation of the Royal Commission on Banking?

The Function of Credit

It is a curious fact, that the most popular political appeal to the masses in Canada is one based on the extension of banking credit through socialization of credit facilities. Detail is never given. This is at the foundation of the present radical, agricultural, politcal thought. The farmer is being taught, that the element of free credit is the cornerstone of his activities. My impression is, that there is not an adequate comprehension of the proper function of short-term credit on the part of the vast majority of Canadian people. May I suggest that constructive comment in the report of your commission, on the general question [illegible] employment of short-term credit in business and [illegible] might have a most salutary effect at this time.

In early pioneering days there were no banks available to lend money to farmers. Farm products were much lower in prices than they are even now, but farmers were generally more prosperous. There were small store bills and occasional debts to implement houses for the simple and inexpensive wagon or plough purchased. Those were liquidated as produce was sold. The individual farm debt on the present grand scale was unknown.

Nothing has occurred during the forty odd years of my

...ation in the West, to necessitate any substantial departure from the simpler and safer financing of the early days, still successfully practiced by thousands of Western farmers. From a business standpoint, there never can be any adequate basis for short-term farm borrowing, except limited amounts immediately prior to an assured harvest, or on the security of marketable live stock, for the simple reason, that the farmer cannot depend on a crop, and, if he is lucky in that respect, he cannot depend on a paying price for his product. To borrow substantially under such circumstances, is to gamble on a very uncertain future.

Is credit, as a matter of fact, an indispensable adjunct to business success? Three times in my business life I have lived through severe depressions. On all occasions the pyramiding of debt was a major contributory cause, and prevented early readjustment. My long range observation is, that aside from monopolistic business ventures, few concerns can borrow at 7 and 8% interest over the years and make it pay. No farmer can.

We face today agricultural, transportation, business and industrial over-extension on every side, also a vast volume of frozen loans. Our equipment could easily handle twice the volume of business normally available. This is the direct result of free credit, which permits of the diversion of business profits into superfluous capital investment by ambitious executives. Established enterprise must also face cut-throat competition, entering an already over-crowded field on the proverbial "shoe-string", depending on credit to function.

Installment Sales.

My conviction is, that our present state of stress is enormously aggravated by the consequences of "strong arm"

instalment selling in the period of prosperity, when, if ever, we should have been able to pay for indispensable equipment as we went. I look upon installment debt, with a nominal, initial payment, as the most dangerous form of credit extension. Provincial legislation casting obstacles in the way of collecting any debt for household equipment and machinery, exceeding fifty per cent of the purchase price, would be fully justified and would lead to more conservative merchandising methods. My information is, that the reckless system of agricultural machinery credit in Canada prevails in no other Dominion and certainly not in Great Britain. It is an unmitigated evil.

Parity of Prices.

Our economy is, I assume, based on the sale of the products of our labour, converted into the medium of exchange. If the price structure, at any time, is such, that large groups of the community cannot exchange their labour equitably for that of other groups, business inactivity must apparently occur. The smaller groups, not being able to sell their labour, then become unemployed. This adds to the business depression, and creates the phenomenon of "starvation amidst plenty."

This has actually been the position of export agriculture the world over for several years. Agriculture, directly employing two-thirds of all the people on earth, must obviously be the controlling factor in world business activity, in both importing and exporting countries. When agriculture is prosperous, owing to a favourable price level or to bountiful crops, or to both, the country is prosperous. Under the reverse circumstances, as at present

in Canada, we have depression, until the agricultural price level is properly adjusted to the general commodity price level, so as to restore agricultural purchasing power. This, therefore, seems to be the fundamental problem facing practically all countries, and particularly an agricultural export country such as Canada.

Debt Liquidating Price Level.

But attaining mere parity of purchasing power as between occupational groups, is not a complete remedy, where depression is of long standing. The liquidation of debts must also be considered. Since the war, and up to recent years, agricultural credit has been abused. Liabilities were assumed on the optimistic expectation that agricultural prices would remain high. When they were cut in two, and in many cases in three, the margin for debt payment disappeared completely. The disturbing fact is, that present debts cannot be paid at present low agricultural prices. Even if agricultural parity of purchasing power is restored, unless the price level is higher than at present, it will not solve the debt situation.

The only methods of increasing the price level are apparently either (a) through monetary inflation, or (b) to control production of agricultural staples entering the world's market, so as to strengthen world food and fibre prices, which presently would be reflected in increased agricultural purchasing power, leading to a higher general price level.

A higher price level forced by monetary inflation, however, can be neither controlled nor maintained against the factor of agricultural over-production, demoraliz ing

world food and fiber prices and finally depressing the general commodity price level. It would, therefore, appear, that controlled production of leading agricultural staples is a condition precedent to increased business activity, under any scheme of monetary manipulation.

Long-term Credit.

As there is not, apparently, any proper basis for rural short term borrowing, the farmer's credit operations should be largely confined to long-term, real estate borrowing. Unfortunately, mortgage money has not been available in the West for several years, largely, it is claimed, owing to various provincial legislative measures, designed to protect the borrower, which affect the security, and to provisions making certain substantial liabilities, such as hail insurance and weed destruction, a prior claim on the land.

The Canadian Farm Loan Board, operating in cooperation with the provinces, has only substituted to a very small extent, owing to an ultra-conservative loaning policy, which, however, cannot be regarded as unjustifiable at the present time. The existing long-term credit situation is most unsatisfactory, but it is difficult to say how it can be mended, except by a more liberal Farm Loan Board policy, which would, naturally involve very large risk. Perhaps, under the circumstances, such a risk is justified.

Interest Charges.

The burden of high interest charges, pyramiding the debt through non-payment and compounding, is the most serious disability the farmer now labours under. Overdue payments

on farm machinery liability in the West, carry a ten per cen interest charge. The volume of these debts take second place only to farm mortgage indebtedness. In Australia and New Zealand the problem was successfully met by reducing by law the rate of interest on mortgages, cumulativ debenture stock, rent of land and payments on land purchase agreements by 20 to 22 per cent. It seems to have worked out very well.

In Denmark the present proposal is to levy a state tax of about 50% on interest coupons on land mortgages debentures, and, in some way, not yet determined, returning the amount to the farmers, thus cutting his interest bill in two. In Germany land mortgage liability, entered into prior to July, 1931, has the standard $6\frac{1}{2}$ per cent interest reduced to 4 and $4\frac{1}{2}$%. In the United States the Federal Land Banks, operated by the government, arrange the refunding of existing mortgages on a 5 per cent basis and amortization of principal over 72 years. Fabulous sums are involved in these operations, quite beyond possibility in Canada. No agricultural country has been able to evade this issue.

Compulsory Reduction.

Optimistic observers place their reliance on voluntary debt and interest compromise. This, unfortunately, seldom happens until the debtor is irrevocably bankrupt. Relief then generally comes too late. Human nature is such, that it seldom relinquishes a claim for money until it is obvious it cannot be collected. If the direct methods of the ancient Greeks and Romans of peremptorily reducing debts, cannot be resorted to today, the incident of retroactive interest adjustment undoubtedly can and should

Banks, and many other financial institutions, have been highly prosperous during the present depression, to the extent, at least, of fairly maintaining normal dividend payments. This rankles in the minds of the public. If a reduction of interest charges to borrowers resulted in temporary reduced earnings and dividends, it would do much to popularize these institutions. The interest to depositors could be reduced to one per cent. If withdrawals of savings resulted in spending, it would help the business situation. If they were otherwise invested, the amount would find its way back to the banks.

Trade and Industry.

May I solicit your special attention to the following observations: With agricultural purchasing power substantially reduced, urban trade necessarily dwindles rapidly Even with the curtailed trade, however, industry and business might often avoid bankruptcy, if a reasonable (not a high) price level could be maintained. But cut-throat competition invariably demoralizes prices completely under such circumstances, unless it is possible to form voluntary price protecting organizations, which is very seldom the case. This situation is, as I see it, the greatest menace to industry and business today, and unless relief is forthcoming quickly, thousands of legitimate concerns, many of long standing, must go to the wall.

In early days the various Guilds undertook the regulation of prices and competition and exercised close and autocratic supervision over the quality of goods offered to the public by their members. Business was rigidly restricted and regulated in the interest of merchant, producer, and consumer. From the time of Henry VII, this

responsibility was assumed by the crown in England, France and Spain. Trade thus controlled prospered under both regi

After the French revolution, the <u>laissez faire</u> policy was [illegible] everywhere, leaving control entirely to t regulating influence of the law of supply and demand, from time to time buttressed by legislation, designed to prevent the more glaring cases of fraud, against the consumer, such as "pure food" acts, etc. This uncurbed, [illegible]tion naturally led to a state of anarchy in business, particularly in times of stress.

The laissez faire policy might conceivably have work satisfactorily if consistently applied. But governments presently invented a system of class protection by import tariff. Professions and labour organized to secure special advantages in respect to fees and wages and so forth. This obstructed the action of supply and demand regulati upon prices. We now have a hybrid system under which certain classes are largely immune from price changes, while the export farmer must meet fierce competition in the world's market, which also governs his domestic prices. It is clear, that such a lop-sided economy canno in the long run, prevail.

May I suggest, that President Roosevelt's much advertised industrial control plan is merely a return to the Guild System of business discipline. Also, that, by accident or design, he has probably stumbled on the only feasible way out of the present suicidal and destructive system of uncontrolled competition, leading, as it admitt has, to a low standard of business morality and ethics, and to long periods of the "profitless prosperity", which almost every competitive Canadian industry has

experienced during the past eight or nine years. In spite its obvious complexities, this plan is not entirely experimental, and is apparently worthy of serious consideration.

Protection of Savings.

We are told that our banks do not advance money for capital expenditure. They have advanced millions to acquir control of, and to "re-finance" established industries, with a few years of spectacular boom profits behind them, in order that small groups of buccaneers might over-capitalize them on the strength of this artificial earnir power, and thus filch the people's savings, the sacredness of which bank executives, very properly, never cease to impress upon the public. Scores of such shady transactions have been negotiated in recent years, resulti in the loss to small investors of many millions and with our conservative, chartered banks, competing for the privilege of supplying the funds to swing these questional deals.

If our banks actually regarded the Massey-Harris reorganization (to mention only one case of many), as sound business, worthy of banking support, my regard for their judgment would be severely discounted. I very much fear, that the determining factor to the banks was no the nature of the transaction, but the knowledge that the bank was reasonably safe in these profitable advances, because It was felt, that the deals could be successfully put over on a gullible public by the promoters.

Your commission would perform a splendid public service, if it advised a new Federal company law with pro safeguards against exploiting the small investor, and new

provisions in the Bank Act prohibiting entirely the use of bank fun[illegible] [illegible]ance the purchase of control of going concerns for [illegible] purpose of re-sale, which is essentially a capital operation.

Such legislation has been passed in Italy, and is n[illegible] [illegible] drafted in the United States. The objection that it [illegible] [illegible]per legitimate business promotion, should not be re[illegible] as a deterrent at this time, because Canadian industry and trade is now so frightfully over-expanded, that little harm would be done if an artificial brake were applied for the next ten years, when the special safeguarding provisions of the law could, if necessary, be reconsidered.

Conclusion.

Summing up my observations on banking policy in Canada, may I say, that I have been a party to large and small borrowi[illegible] from several [illegible] [illegible]r many years, and am at present. My treatment has bee[illegible] [illegible] enough.

Banks in Canada are commercial institutions, operated to make the largest possible profits. Service to the public is, very properly, purely incidental. Banks enjoy valuable [illegible]. These, however, are regarded as a public contri[illegible] towards safety and not as conferring any obligation to assume risks in public interest.

As to the general policy of our banks, past and present, one concludes:

(1) Banks have in the past been entirely too free in their loaning policies to governments, municipalities and "big" business generally and are, therefore, largely responsible for undue business expansion and heavy taxation.

(2) They [illegible] supporting "big" business very generously today, to protect their own risky and large investments.

There is apparently no other alternative.

(3) They are highly conservative with agriculture and "small" business, with temporary frozen loans, well secured and of limited dimensions , but with ample and sound capital assets, efficient in management, and a good earning record behind them, who urgently need very limited financial support to carry them over the depression. Hundreds of that type of concerns long established, with current assets now depleted by years of struggle under ruthless depression competition, must apparently go to the wall, presently, with disastrous consequences, for want of very modest assistance to carry on through what we [illegible] the closing months of the present disastrous period [illegible]ll be a distinct national loss.

(4) The typical comment of the "man in the street", that "one is quite safe if only one owes the bank enough", sums up the situation fairly correctly. That attitude may reflect an unavoidable policy on the part of the banks, but it obstructs the law of "survival of the fittest". Those who owe the most are generally not the fittest. I cannot suggest the remedy, if remedy there is. I trust, the Commission may.

Respectfully submitted,

(Signed) Chas. W. Peterson,

Editor,
"Farm & Ranch Review.

MEMORANDUM SUBMITTED BY:

J. A. BARRETTE, ESQ. M.P. (for Berthier, Maskinonge, P.Que.

C'est dans l'intérêt que je porte à la classe agricol. et aux petits épargnistes que je comparais devant cet honorable comité.

Etant cultivateur, je voudrais que la classe que je représente au parlement de mon pays soit traitée avec équité par les banques canadiennes. Je voudrais en plus qu'on donnât plus de crédit aux fermiers canadiens qu'ils en jouissent actuellement. Ils devraient être traités de la même manière que l'on traite le financier d'entreprises hasardeuses.

Dans le cours de la session dernière, j'ai proposé à la Chambre, lors du débat du budget, l'imposition d'une taxe unique; celle sur les opérations bancaires. Pour donner plus amples explications, je vous soumets une copie du discours que je prononçais à la Chambre lors du débat. Si le parlement n'a pas fait écho à ma voix, j'ai cru que les banquiers prisaient mal mon projet. Il est évident que la taxe unique atteint surtout le riche, le grand industriel et le financier. La classe agricole et le pauvre sont soulagés parce projet.

La suggestion faite devait rapporter au-dessus de $300,000,000 au Trésor public. Elle devait en plus éviter en frais de perception une somme de huit à dix millions par année. Après la clôture du débat, j'ai dû recevoir environ trois mille lettres d'approbation et de félicitations de ce projet venant du clergé, de la magistrature, de l'industrie et de la finance. Je dois faire remarquer au comité que ce projet devait

remplacer toutes les autres taxes imposées aux contribu-[illegible]les, à l'exclusion des taxes de douane et des taxes [illegible]re. Ceci à mon sens devait rendre le projet [illegible] et évitait beaucoup de complications.

Le cultivateur et le petit bourgeois de campagne se servent des banques pour y mettre leurs épargnes en sûreté. A quoi servent généralement ces épargnes venant de la campagne? Les banquiers drainent l'argent du cultivateur et du petit épargnant et s'en servent pour faire bénéficier les grands manufacturiers, les industriels, les financiers; c'est-à-dire que l'épargne rurale sert [illegible] bénéfice des spéculateurs des grands centres. Il leur faut faire de l'argent vite. Tandis que le crédit des fermiers est sûr mais ne donne aucun grand bénéfice aux banquiers; c'est-à- dire qu'ils y vont lentement mais sûrement.

Je vous ferais remarquer que le fermier québecois [illegible]t emprunter sur les produits de la ferme. Si un cultivateur se présent au guichet de la banque et veut avoir $50 ou $100 tout de suite, on lui demande un bilan de ses affaires et on lui répond: "Ces petits prêts ne nous intéressent pas et notre bureau chef nous interdit ces avances". Alors pourquoi l'argent des fermiers qui est ainsi à l'épargne ne servirait-il pas uniquement aux fermiers? Et que l'argent venant des centres ruraux ne devraient servir également qu'à protéger nos fermiers ou les marchands ruraux. Je voudrais donc que l'épargne rurale ne serve en aucune façon à favoriser les courtiers et les spéculateurs urbains.

On devrait également limiter les dividendes à cinq pour cent à être payés aux actionnaires. Le salaire des officiers et du président de chaque banque ne devrait pas être supérieur à celui du Premier Ministre du Canada. On devrait aussi limiter à un salaire minimum de mille dolls celui des commis.

Un comité de surveillance devrait être institué pour contrôler le coulage des profits des banques. Exemple, une banque décide de construire une succursale au coût de $500.000; vous constatez qu'il n'apparaît au bilan que pour $25,000. Où est allée la différence? Les profits de la banque devraient être divisés équitablement entre les actionnaires et les déposants. De cette faqon, le systéme que j'ai proposé lors de la discussion du budget assurerait l'augmentation des dépôts et des revenus suffisants pour équilibrer le budget du pays.

TRANSLATION:

It is because of the interest which I have in the Agricultural class and small depositors that I appear before this honourable committee.

Being a farmer, I would like to see the class which I represent in the Parliament of Canada treated with equity by theCanadian banks. I would also desire that more credit be extended to Canadian farmers than at present; they should be accorded the same treatment as that given the financier of hazardous enterprises.

In the course of last Session, I proposed to the House, in the debate on the budget, the levying of a single tax; that on banking operations. In further explanation, I submit copy of a speech which I made

in the House, at the time of the debate. If Parliament did not give heed to my voice I thought that the banks did not look favourably upon my project. It is evident that a single tax reaches particularly the rich man, the big industrialist and the financier. The Agricultural ... nd the poor man would be relieved by my project.

The suggestion made would have brought in over $300,000,000 to the public Treasury. It would further eliminate collection costs amounting to eight or ten millio a year. At the close of the debate, I must have received three thousand letters of approval and of congratulations regarding the project; such letters coming from the clergy, the magistracy, industry and finance. I would call attention to the fact that the project in question would replace all other taxes levied on the taxpayer, with exception of customs and excise taxes. This, to my mind, should render the project popular and prevent many complications.

The farmer and the country gentleman use the banks for the purpose of depositing their savings in security. ... urpose do these savings from the country serve? The bankers drain the money which they receive from the farmer and the small depositor and use it for the benefit of the big manufacturers, industrialists and financiers; that is to say, rural savings are applied to the benefit of speculators in the big centers. They must make money quickly, whereas the farmers' credit is sure but does not bring in any great return to the bankers, that is to say, they go slowly but surely.

I would have you note that the Quebec farmer cannot borrow on the produce of his farm. If a farmer presents

himself at the bank and asks for $50 or $100 as an immediate loan, he is told: "These small loans do not [illegible] us and our head office forbids us to make these [illegible] Why then should the farmers' money, which is in savings, not be utilised solely for the benefit of the farmers? And why should not the money coming from rural centers be likewise employed to protect the farmers or the rural merchants? Therefore, it is my wish that rural savings be not employed in any way to favour brokers and city speculators.

Dividends paid to shareholders should also be limited to 5%. The salary of the officials and president of each bank should not [illegible] higher than that of the Prime Minister of Canada. A minimum salary of $1000 a year should also be set for that of the clerks.

A supervising committee should be established to [illegible] bank profit leakage. For example, a bank decides to [illegible] branch office at a cost of $500,000; you will note that but [illegible]5,000 appears on the balance-sheet. What has become of the difference? Bank profits should be divided equitably between the shareholders and the depositors. In this manner the system which I proposed, at the time of the debate upon the budget, would ensure an increase in deposits and revenue sufficient to balance the country's budget.

SUPPLEMENTARY MEMORANDUM - INVESTMENT BANKERS' ASSOCIATION OF CANADA -

September 19, 1933.

The Investment Bankers' Association have had before them the brief submitted on behalf of the Chartered Banks respecting the position of the Banks in the business of underwriting and distributing securities. It is the desire of the Association to discuss as briefly as possible some of the points raised in the statement of the Chartered Banks and to discuss also a comment made by one of the representatives of the Chartered Banks in the hearings at Ottawa as reported in the press of September 16th.

In the Banks' brief several paragraphs are devoted to proving that there is a legal basis for the banks engaging in the business of underwriting and distributing securities. There is a considerable difference of opinion regarding the legal right of the Banks to deal in securities except for their own account. What was stressed, however, by the Association was that the extension of the activities of the Banks in this particular field during the past decade represented a much wider interpretation of the powers given to them in the Bank Act to "deal in" securities than formerly obtained, and that such extension of the banks' activities was definitely not in the public interest.

That this incursion of the Banks into the field of security underwriting and distribution on the present scale in Canada is a new development since the war is obvious from a reference to the following two items:

(1) As mentioned in our brief, the protest against this new development was a matter of informal negotiation betw-

[illegible]tee of the Association and certain of the banks. We q[illegible] below a letter received by the Chairman of this committee of the Association from the General Manager of the Canadian Bank of Commerce.-

Toronto, 1923.

Dear Mr. Ward:

With reference to the various conversations which we have had during the past few months concerning the bond business carri[illegible] on by Canadian Banks through bond departments establish[illegible] for that purpose, I understand that a number of the bond houses have felt that the competition from the banks through these departments might develop into a serious matter for them, and having this in mind appointed [illegible]ttee, of which you are Chairman, to take the whole [illegible] with the banks with a view to having them retire from their activities in this field.

You have put this matter squarely up to me as General Manager of the Canadian Bank of Commerce and so far as this Bank is concerned I now beg to state our position.

As you are aware, the War financing of the Dominion Government required the Banks to act as agents in the placing of the Victory Loans, and as a result many thousands of the banks' clients became bondholders, this extending to every one [illegible]r 500 branches. In the course of time hundreds of our clients wished to dispose of their securities or invest further sums in bonds (having for the first time in their lives become bondholders), and it was only natural that they should appeal to their bankers for as[illegible] and advice in selling and purchasing securities. [illegible] activities became so great that the Bank was forced

gregate the business and created a department for th
purpose. In the nature of the case our operations in the
bond field are confined largely to trading, which must
necessarily broaden the general market for all bonds and
therefore operate to the advantage of the bond houses. We
have no salesmen on the road selling securities, and it i
not in our interest as holders of deposits to actively
canvass our clients to invest their moneys in bonds excep
where they express a preference or desire to do so.

It is not our intention to go into competition wit
the bond houses in bidding for new issues of securities,
nor have we any present intention of inducing governments
or municipalities for whom we act as bankers to dispose o
their securities to this institution. We are bankers now
certain of the provinces and many municipalities, and
the securities of such provinces and municipalities alway
go to the market in the ordinary way by either competitiv
bids or private negotiations as they may see fit. We wish
it, however, to be understood that on occasions we participate in syndicates composed of bond houses for the purpose of bidding for new issues of securities.

I gather from what you say that some of the bond
houses are fearful lest information concerning their clie
might get into the hands of the bond departments of the
banks and be used to the disadvantage of the bond houses.
All I can say is that we have issued strict instructions
that under no circumstances must any such information be
given to or sought by our bond department or made use of
by them in connection with their operations.

For the reasons above given it is not practicable

in my view for this Bank to do away with its Bond Department. I am satisfied that the net results of the Bank's operations in this connection will be all to the good as the bond dealers are concerned.

Yours faithfully,

"JOHN AIRD" General Manager.

(2) Another evidence of the recent character of the bank extension into the securities field is found in the following quotation from the remarks of the General Manager of the Bank of Montreal at the annual meeting held December 6, 1926:

> " Let me mention some comparatively <u>new</u> special services we now render to our clients and the public at large ....
> We have also a department which specializes in securities, maintaining contact at all times with the markets in this country and abroad. The services of this department are at the disposal of our clients through the medium of any of our offices."

May we refer now to the discussion of the war financing appearing in the Bankers' brief? A reference is made to subscriptions by the Banks to a part of the War Loans. The Association's brief contains no criticism of a purchase by the Banks of securities for their own account.

The Association in its brief submitted to the Commission, has freely admitted that "In Canada during the war years the Chartered Banks performed an indispensable service but their main contribution was through facilitating the handling and forwarding of the enormous number of applications and cheques involved, together with the mak-

ing of Loans to subscribers -- functions one normally associates with the regular activities of a commercial bank.

In the War Loans of November 1915, September 1916 [illegible]rch 1917 the security dealers raised subscriptions for [illegible] substantial amount of these Loans but it was not in these Loans that the broad basis was laid for the distribution of and dealing in domestic loans. In the 1915 Loan there were only 24,862 subscribers; in the 1916 - 34,526 subscribers and in the March 1917 - 40,800 subscribers. It was in the Fall of 1917 after the New York market had been closed for Canadian borrowers and the amounts required by the Canadian Government had increased to much larger proportions that it became necessary to set up an organization for canvassing the whole people for raising amounts hitherto undreamed of as within the possibilities of the domestic market in Canada. We repeat that in the Victory Loans of 1917, 1918 and 1919 the Banks performed an in[illegible]able role in the field of purely commercial banking [illegible]ns, but we also again state that the organization for the actual raising of the subscriptions was either manned by partners or employees of bond dealer firms, or by men selected and trained under their direction. The increased breadth of the appeal in the Victory Loan campaigns is evident from the figures of subscribers. In 1917 the subscribers numbered 820,035 and in the second Victory Loan in 1918 the applications numbered 1,067,879.

Reference is made by the Bankers to the voluntary approach of holders of bonds, asking the Bank to arrange for the purchase or sale of such securities. In the final part of our Brief the Association stressed that it has no

objection to the Banks acting as agents for their customers What was asked in this connection was that the Banks act <u>only</u> as agents for their customers.

We refer next to the discussion of orderly marketing as it appears in the Bankers' brief. There seems to be some misapprehension with regard to the duration of the period during which the orderly co-operative marketing [illegible]nization functioned. The exact period was from January [illegible]il the orderly marketing group was formally dis-sol[illegible] at the close of business September 14, 1932. This formal dissolution was announced at a meeting held in the office of one of the security houses on the latter date. It is obvious therefore that any reference to an orderly merketing organization prior to January 1932 and after September 1932 is quite wide of the mark. During the actual period [illegible] orderly marketing above referred to, the management of those issues in the majority of cases devolved upon a secur[illegible]aler firm, although in some cases the banker to the [illegible] was consulted. (We are fully aware that this statement is in direct contradiction to one made in the Bankers' brief.) May we point out also that the available figures on distribution effected during the period [illegible]ly marketing indicate that approximately 87% of the [illegible] value of the bonds distributed during that period were sold by the dealers and only 13% by the banks. As this is the record of distribution in a period acknowledged in the Bankers' brief to have been one of exceptional difficulty, it would not appear that any case has been made out by the Banks for remaining in the field of underwriting and distribution of Provincial and Municipal issues.

In the whole period of orderly marketing, whether the negotiations with the borrower were conducted by a Bank or a security dealer, no committment was taken as between the negotiator of the issue and the borrower in connection with the securities distributed.

In connection with the foregoing two paragraphs, reference should be made to the figures submitted by us in Schedule "A" accompanying our letter of September 14th, 1933, addressed to the Secretary of the Commission.

We come now to the general point which we believe [illegible]ers' brief was intended to make, namely that the [illegible] should be allowed to remain in the business of underwriting and distributing Government, Provincial and Municipal securities and should retire completely from the field of underwriting and distribution of Corporation securities. May we refer once more to the Association's brief in which we feel this point is amply covered, and we feel also that no reference to conditions in the United States or Great Britain is applicable to the Canadian situation for the reasons set out in the brief.

May we emphasize again that the Association's brief does not prevent the Banks from acting as Agents for their customers.

May we quote again from our brief with regard to the impracticability of the Canadian Banks remaining in the business of underwriting and distributing Government and Municipal securities to the exclusion of Corporation Securities:

<u>Quotation from Association's Brief:</u>

"(4) Despite the policy of the Banks generally in trying to handle only Government securities in their retail

operations, they have not been able to escape the criticism of their clients for selling securities which have turned out to be unsatisfactory. But Canadian industry requires that a good market be maintained for the distribution of some securities which the Banks might be unwillin to sponsor, such securities being none the less legitimate and entitled to a good credit rating. If our banks, however, are to be permitted to operate their government bond distribution business it will be at the expense of the Bond Dealers. There is not sufficient Corporation financing to [illegible] Bond Dealers to maintain organizations for that [illegible] alone and it is obviously not in the public interest that Bond Dealers should confine their business to Corporation financing. It is important, therefore, that a strong Bond Dealer organization be maintained, founded on dealings in government securities. The existence of such an organization will be the best guarantee that the distribution of corporation securities will be kept on a sound basis. The Banks, themselves, will appreciate the importance of strengthening the facilities for the underwriting and distribution of credit - worthy corporation issues because industries able to easily finance their long-term credit requirements are desirable applicants for short-term bank credit.

"(5) The presence of Banks in underwriting syndicates [illegible] numerous occasions created situations where the security dealer is deprived of the confidential relationshi which he should have with the commercial bank at which he does his banking. At the present time when bidding or negotiating for new issues dealers often find it impossible

to consult with their bankers in order to arrange loan accomodation and foreign exchange coverage and other details because the bank is likely to be a member of an opposing syndicate and it is of course out of the question for the dealer to disclose his plans to a competitor.

"Another important aspect of this dual position of the banks is found in the case where a dealer in arranging a [illegible] to a client is under the necessity of clearing the transaction through the branch of some chartered bank. The manager of this bank is unfortunately placed in a dual position. On the one hand he is supposed to be a confidential agent for the completion of the transaction between the dealer and the dealer's client; and on the other hand he is, to all practical purposes, a salesman of securities in competition with the dealer."

The Bankers in their brief have made a special point of the necessity of their participation in the underwriting of large issues [illegible] by government and municipal borrowers. The inference is that it is in the public interest that the facilities provided by the financial institutions of the country should be such that issues of Government and Municipal borrowers should be readily financed. In view of the [illegible] borrowing can readily be made by the Banks under the [illegible] Act on securities of this type at a low rate of interest (well under the coupon rate of most of such securities), and on a very narrow margin, does it not seem reasonable that in the public interest the Banks should stand prepared to finance such issues for Security Dealers at established rates during the period of distribution without their services involving a remunerative position in the

underwriting syndicate? Briefly, may it not be stated th the inability of the Security Houses to finance the purch of large issues of high-grade securities is not so much a criticism of the Security Dealers but rather an incidenta commentary on an undesirable aspect of the credit policy of the Chartered Banks with relation to the issues of publ borrowing bodies? It is surely quite possible for a Bank to advance a loan on an issue of securities without the Bank itself being a member of the syndicate purchasing the issue. Banks have not found it necessary to become grain dealers in order to make possible loans on wheat.

May we now turn to the comment made by a representative of the Canadian chartered banks before the Commission in the hearings held at Ottawa, and reported in the press September 16th. One of the Commissioners desired to know whether the Banks had any organization to discourage Provincial or Municipal borrowings in New York. The representative of the Chartered Banks implied that the bond dealers were responsible for encouraging the sale of bonds in New York.

First may we say that where the Canadian Provincial or Municipal borrowers called for optional tenders for issues (1) payable Canada only, and (2) issues payable Canada and New York, almost invariably the price tendered for bonds payable in the two markets was higher than that tendered for bonds payable in Canada only.

The Investment Bankers' Association of Canada feel they are correct in assuming that the Chartered Banks' representative in making the foregoing comment wished to disparage the activities of the Security Dealers in making issues carrying provision for payment in New York. In the

years 1926 to 1931 inclusive there were ninety issues mad by Dominion, Provincial, Municipal and Canadian Corporati borrowers which provided for payment in New York funds at the option of the holder, and which carried the names of one or more of the Canadian Chartered Banks, who appeared as sponsors, underwriters and distributors of the issues in company with Canadian Security Dealers. The aggregate amount of these issues was One billion eighty-five millio five hundred and fourteen thousand dollars ($1,085,514,00 So far from disparaging the attempt to facilitate the attraction of American capital to Canadian Government and Corporation issues, this record would seem to prove con- ively that the making of issues payable in New York e hearty approval and support of the various Canadi Chartered Banks. We have on the one hand, therefore, th public sponsorship of the Canadian Chartered Banks of issues made payable in the New York market, and on the ot hand the statement of their representative before the Com mission that the Chartered Banks apparently discouraged this borrowing with provision for New York payment. The position of the Security dealers as represented by the Investment Bankers' Association of Canada is that the borrowing in New York was done at a low cost; that Canad as a new country needed to import capital from abroad, a that the funds raised in the New York market provided es sential capital for public and private borrowers. Due t abnormal conditions in recent years Canadian borrowers h placed under something of a handicap on maturities interest and principal which had to be met in New York funds during the past two years. On the other hand, oth

external issues made in the London market carrying provision for payment in London in Sterling proved advantageous [illegible] borrowers. The Investment Bankers' Association acknowledges and takes credit for the action of its members in opening up the New York market as a field for the raising of some of the external capital requirements of the Dominion. They are convinced that in future years Canadian borrowers will require to have access to that market again. Briefly, the Association's members endeavour to maintain a consistency between their actions in sponsoring and distributing these issues with New York payment and their present views [illegible] to the long-term benefits accruing from the development and maintenance of an external market for Canadian borrowers.

In conclusion, after careful analysis of the Bankers' brief in which no defence is offered for unfair competition [illegible]t that they have failed to justify their intrusion [illegible]t [illegible] Investment Banking field and that their continuance in this field is impairing the efficiency of investment banking which is so essential to the welfare of the Dominion as a whole and to future commercial and industrial expansion.

BRIEF

CORPORATION OF

THE TOWN OF MIMICO

September 8th, 1933.

Chairman,
Royal Commission on Banking,
Parliament Buildings,
Queen's Park,
Toronto, Ontario.

Dear Sir:-

This brief is presented to your Commission respect the Town of Mimico and its experiences with banking.

The Town has become financially embarrassed and we consider our Bank is entirely blameless for that position.

Prior to the difficulty, Councils no doubt made th mistake of considering the Bankers' willingness to lend th criterion of security. We believe this habit is more or less general throughout the country. The interest earnin of the Bank from the Town's business during:-

1928	$ 6,381.19		
1929	10,274.53		
1930	9,979.61		
1931	11,845.84		
1932	14,733.51	Total	$ 53,214.68

Competition for this lucrative business unquestion interfered with sound business judgment from a security standpoint. The fear of losing the Town account by the and the Bankers' willingness to lend being considered the [illegible] of security, we suggest is a condition in which yo [illegible]ssion will be interested.

We find it difficult to segregate banking from an legislation pertaining to taxation.

Smaller Municipalities do not and cannot maintain a staff familiar in every detail with financing as do our l[illegible] Cities with Finance Commissioners etc.

We suggest in this Province the scope of the Ontario Municipal Board, both from the standpoint of representation and endeavour, be broadened out so as to act in an advisory capacity to Councils, prior to making expenditures necessitating substantial Bank Loans.

Such a body could be an instrument of administration that would romove tho fear of the Banker in losing business by being frank. It could be of assistance to a growing Municipality [illegible] influencing the Legislative Assembly to enact legislation [illegible] would maintain equality in taxation for community services under new development.

In amending the Bank Act the Government should have in mind the permission of references that such a body may [illegible] advisable to submit from time to time.

We would emphasize financial problems have been particularly embarrassing in suburban and growing Municipalities adjoining one another. Inequalities in taxation for community services has placed such a financial responsibility upon some of these Municipalities that they are unable to meet their just obligations.

We estimate this condition is costing Mimico over $50,000. annually and to be one of the chief difficulties in balancing our budget. The significance of this is evident when we realize $4,400. equals one mill of taxation.

The validity of Part VI of the Ontario Municipal Act with respect to all Federal Legislation including the Banking Act should be clearly established.

The relationship between Banks, Debenture Holders and Taxpayers who do pay promptly and in full, should be definitely provided for, and clearly defined in event of default, caused by a substantial portion of the Taxpayers being unable to meet their obligations.

This Council is of the opinion the very rigidity heretofore considered fundamental with our banking system may be detrimental when so much thought is being directed as to the advisability of the laboring people being required to absorb most of the shock of business fluctuation.

Unemployment, reduced working hours, demotions and reduced wages is a combination that has prevented our people from meeting their obligations and ultimately bank loans have increased and interest has not been paid, resulting in credit being stopped and default on Debentures. This caused the Bank to make a run on the public. The machinery of Municipal Government was thrown out of gear and the power of our Banks was brought home very forcibly.

It is true we have had no Bank failures in Canada, due largely to Government business and assistance in one form or another, but it is equally true there has been a good many private and Municipal failures partially due to the Bankers swing to the safety extreme during this depression. Our Bank monopoly is equivalent to a money trust. It has made our people servants of finance rather than finance servants of people.

The stigma of stopping credit, rather than better judgment in advancing loans in prosperous years has made a bad position decidely worse. We therefore recommend that our Government keep greater control over our Banks,

before they become absolute servants of the Banks.

We note with concern the campaign against social legislation by Banking Presidents and other leaders in finance.

We suggest in amending the Bank Act no saving should be considered in this regard so long as speculative opportunities prevail in their various forms, our people will [illegible] surrender but will expect greater benefits from such [illegible]tive enactments.

Successful Banking depends on the ability of those with whom they do business to pay their debts. We emphasize this because there has grown up an opinion that the lender rather than the payer is all important in Municipal financing, and to emphasize the welfare of the Taxpayer is a most important factor in banking.

To content ourselves with only complaining of previo[illegible] Municipal expenditures being entirely responsible for the inability o[illegible] [illegible] people to pay their Bank Loans, is only permitting ourselves to be misled. The fact is a substantial portion of our people have had their earning power reduced until they can pay little or no taxes.

We are of the opinion that reduced interest on [illegible]lly all Federal, Provincial, Municipal and private [illegible] [illegible]uld be at least temporarily enforced.

We believe reduction in interest rate and tax reformation has been the main factors in giving greater stability to the financial structure in Great Britain and to longer delay it here is most inadvisable. It is partially and gradually being accomplished by our Federal and Provincial Governments by refunding debt, but our Municipal system of financing has a debt retiring feature, and

refunding is not practicable excepting in case of default and then it is a cumbersome and expensive procedure.

A central office to register owners of all Public Bonds is advisable.

The advisability of reduced interest charges is not [illegible] expressed by many, but we believe it is quietly [illegible] by those who give leadership to financing problems. We consider it much more desirable than ultimate repudiation.

Repudiation is avowed by few, but an effort to extract high interest rates we are convinced will meet with failure. Neglect to pay interest is the first silent step towards repudiation, when people become contented over neglected payment of interest it is easier to declare in favour of repudiation and when public faith is once disregarded faith in private financing soon follows.

We suggest therefore reduction of interest charges and greater equalization of taxation particularly Municipal taxation should and must take place, and in amending the Bank Act nothing should be done to retard any such legislation.

All of which is respectfully submitted.

(Sgd.) A.D. Norris, Mayor.

(Sgd.) W.A. Edwards, Chairman
Finance Committee.

MEMORANDUM RE MUNICIPAL FINANCE

Submitted by

Horace L. Brittain
Citizens' Research Institute of Canada, Toronto.

ing by Municipalities under Existing Conditions een too Heavy in Many Instances.

One of the phenomena which has become apparent in recent years is the increase in municipal debenture debt. Including schools, this amounted to about $416,000,000 in 1913, $999,919,496 in 1922, $1,343,294,481 in 1930 and in 1932, as of May, about $1,430,000,000. The annual debt charges thereon, being interest and sinking fund or serial repayments principal, could not have fallen far short of $100,000,000. In ten cities of over 50,000 population, a compilation by the Citizens' Research Institute of Canada shows that debt charges payable out of taxation and incidental revenues constituted from 27.9% to 53.7% of the tax levy with an average of 35.6% on the total curre . Including the incidental revenues the percentage would, of course, be somewhat lower. Part of this debt and the corresponding annual debt charges are on self-sustaining public utilities and therefore have no effect on current taxation; but the larger portion is a direct charge on tax revenue and to that extent adds considerably to the tax burden. The municipal tax burden including school taxation went up from over $90,000,000 in 1913 to over $281,000,000 in 1931. Probably the majority of the municipalities default at this time, and large numbers of other municipalities which are experiencing difficulties as the result of increasing arrears of taxes, may

ascribe their present position largely to heavy borrowing on capital and current account. It is hardly likely that such municipalities will be materially assisted by making easier to borrow money on either capital or current . If the best interests of the borrowing municipalities had been considered rather than the probability of the lenders getting their money back,municipal debt (funded and floating), the consequent annual debt charges, and the tax levy would not be so burdensome now, at a time when the power to pay of taxpayers has been so greatly reduced. It would seem reasonable to suppose that, if municipalities had restricted their borrowing by pursuing either the pay-as-you-go policy or the do-without-what-is-not-necessary policy, credit would have been increased, and that they would have been able to borrow more cheaply funds necessary for essentials both in good and bad times. While it may be necessary at present to temper the wind to the shorn lamb, even when it had asked to be shorn, as nt policy "easy money" can hardly stand examination. can readily believe that if it had been easier and cheaper to obtain money in the past, more municipalities would have been in default and more in financial difficulties at present than is actually the case.

That municipalities can control their debt is shown by the fact that out of 16 of the largest cities in Canada, 8 reduced their per capita net general debt between 1922 and 1932. Of these, six made large reductions, 5 being in the Canadian West and one in the East. The excellent record of these cities in per capita debt reduction during the decade would hardly have been possible if ready access to cheap borrowed funds had been available.

Heavy Taxation and the Depression have Combined to Increase Tax Arrears Greatly

Another phenomenon in the field of municipal finance at the present time is the huge increase of tax arrears.

The total tax arrears of 73 urban and suburban municipalities in Canada with a population of 10,000 and over grew from $51,303,699 in 1930 to $61,297,539 in 1931 and $77,577,416 in 1932. The combined 1932 tax levy of these municipalities was $182,783,060 or about 65% of the total municipal and school tax levy in Canada in 1932. In two cities the arrears exceed the total current levy and in two more are almost equal to it. In 21 others of these municipalities the tax arrears exceed one half of the total tax levy. The following combined record of 16 of the largest cities in this list is illuminating:

Year	Per Capita Arrears
1922	$15.63
1925	14.71
1928	12.31
1930	12.86
1931	15.13
1932	19.61

It would appear that if there had been less easy money previous to 1928, the scales of debt and current expenditure might have been lower, the taxation lighter and the accumulated tax arrears less burdensome. In fact the figures show that in municipalities which succeeded in reducing taxation in the years of depression there was a reduction in the percentage of uncollected taxes on the current tax levy.

The tax arrears situation is acute in many rural municipalities. In nine townships for which the Institute has figures, the municipalities collected less than one half of their levies.

Would Not the Issue of Currency to Banks to Loan to Municipalities or the Guarantee of the Bonds of one Level of Government by Superior Governments Tend to Work Against Efficiency in Administration?

If one municipality could be assisted in this way, all could and probably most would. The poorly managed municipality would borrow at the same rate as the well managed. It could hardly be expected that the banks would refuse to lend to a municipality when the government was advancing the funds or guaranteeing the loan, or that the government would differentiate between municipalities desiring loans.

Money loaned would have to be paid back. The share of any municipality which could not pay would have to be shouldered by the remainder. The solvent, self-supporting and conservatively managed municipalities would tend to become fewer and fewer. On the other hand, if municipalities knew that they could borrow only at a rate corresponding to their record, and might not be able to borrow at all, is it not likely that there would be fewer municipalities requiring assistance? It is reported that an Ontario County has recently reversed its policy of guaranteeing the debentures of its local municipalities.

One Way to Overcome the Necessity of Borrowing to Finance Current Expenditure Would be to Levy Taxes Before the Expenditure is Made Instead of After.

In the September-October issue of the Quebec Municipal Bulletin, the Deputy Minister of Municipalities asks the following question, "When should a municipality levy the tax required to permit it to collect the funds which are required to carry on the administration?" He answers

it as follows: "The normal date, which is mentioned by the Code, is in the month of October. Some municipalities impose their annual taxes in October, but for the current year. This is in error as it then happens that the municipality is administered between January and October without a dollar having been voted, and without taxes having been imposed. The collection roll which is made in October as well as the tax which must have been imposed, is for the following fiscal year, beginning on the first of January next."

Such a system may be a gospel of perfection but what reason is there that in all provinces the law should not provide that the municipal budget should be prepared tentatively for the following year in October and November, should be passed finally by the fifteenth of January, and that the first instalment of the tax levy should be payable by March 1st. Prepayment of taxes could be encouraged. Such a system would largely do away with the necessity for current borrowing, and would meet the need of those taxpayers who are most in funds toward the end of one year and the beginning of the next. A five or ten year budget of capital improvement subject to revision each year, properly administered, should greatly reduce the amount of borrowing for capital purposes.

It would take some time to bring about these reforms, but with a will to achieve they could be accomplished before the next depression is upon us. Palliatives may be necessary at present in some cases, but a thorough going reform in municipal budget making and financing would make the administration of palliatives unnecessary.

BRIEF SUBMITTED BY

THE CANADIAN CHAMBER OF COMMERCE

September 23, 1933.

To the Right Honourable Lord Macmillan, P.C.,
Chairman, and to the Members of the
Royal Commission on Banking and Currency,
MONTREAL.

My Lord and Honourable Sirs,

Referring to our submission to you under date of September 7th, I may now say that a wide and intelligent interest has been shown in the enquiry which was undertaken a month ago among our directors and members with the object of obtaining their point of view on the banking system. We have received over a hundred replies from all the provinces setting forth the opinions of some of our principal Boards of Trade and Chambers of Commerce, of a majority of our directors and of a large number of the leading Canadian business firms in the Dominion. These views are representative and suggestive. Our Executive, therefore, without setting forth a Chamber opinion, believe that they may properly outline to you the feeling of Canadian business, as gathered from our survey, toward the operation of our banks.

In the first place, the opinion is unanimous from one end of the country to the other that Canada has ample reason to be gratified with the stability of our banking system and with the enviable position it holds in international finance. That the banks have stood Canada in good stead, both in normal times and when business and the public elsewhere have been apprehensive of the security of their deposits, is admitted on every hand. Irrespective of whatever changes which here and there are recommended, it is clear that business regards

the soundness of our banks as one of our greatest national assets.

With regard to the question of setting up in Canada a central bank, it may be stated that based on our analysis, opinion in Alberta, Saskatchewan, Manitoba and Prince Edward Island, leans toward such an organization, whereas in the other provinces, business opinion for the most part is otherwise inclined. It is only fair to remark, however, that even on the prairies business opini is far from being in entire agreement on the necessity or advisability of a central bank. On the other hand the preponderating feeling in British Columbia, Ontario, Quebec, New Brunswick and Nova Scotia is strongly set against such an organization. Those who favour a central bank visualize it as a medium for stabilizing foreign exchange and domestic price levels, for influencing the expansion and contraction of credit, and for the securing of greater elasticity in interest rates. Those taking the opposite view claim, that even if a central bank could perform these functions in Canada, other countries with central banks have latterly suffered more serious economic ills than has Canada, and that central bank operations have not prevented in these countries recurring depressions. It is further advocated by many competent business men that no such radical change as the establishment of a central bank should be made under existing conditions; that a central bank could hardly be entirely divorced from political influence; that it would doubtless be an additional cost for the country to set up and operate, when economy is so necessary at the presen

time, and that any deficiencies in our banking and currency legislation can be remedied within our present laws. It may be further stated that the advocates of a central banking institution -- and their sincerity and number are unquestioned -- are not altogether clear or agreed as to just what the regulative functions of such an organization would be.

Respecting the question of credit, it is generally thought its availability has to be primarily governed by business conditions and the security offered, inasmuch as the banks are loaning funds entrusted to their care by depositors. Were the banks to grant credit on uneconomic bases such action, if persisted in, would wreck the banks, while any speculative practices the public would be the first to decry. Indeed, instances have been cited where too much credit in good times was allowed to farmers, industrialists and municipalities, not only by the banks but, in the case of farmers, by merchants and machinery companies. Other cases are cited where it has seemed too little credit has been made available, especially to the smaller retailer. So far as the present is concerned, it is pointed out that the banks have abundant cash and liquid securities on hand, but the demand for credit by those who have the right to expect it, is limited. A cross section of the analysis, however, would indicate that by and large it is felt that business has been fairly treated by the banks in so far as credit availability is concerned, and that the banks are to be commended for the care they have generally exercised in granting credit. What is often

stressed is that means should be devised of levelling out both the peaks of easily-available money and the valleys of dried-up credit. Attention is also called in the analysis to the help the farmer would receive were farm loans to be originally arranged for longer periods than generally fixed.

In the matter of interest rates, it is felt in various quarters and more particularly on the prairies that interest rates should come down. Even in the west, however, it is recognized that interest rates must vary because of the cost of doing business and because the loaning risk varies in different areas and occupations. What is desirable, so it is pointed out, is that interest rates should be as low in each area and occupation as cost, risk and other related factors make proper. It is further felt that the reduction of interest rates on saving deposits being general, the reduction in interest rates on farm and commercial loans should also be general. Any lowering of interest rates, so it is similarly claimed would have the tendency of stimulating business in these days of recovery. Reference is frequently made to the desirability of a greater flexibility in interest rates which are, in the opinion of some, too high at present compared with the price of other commodities. On the other hand several specific references are made to the fact that Canadian interest rates are fortunately stable and do not fluctuate as in some other countries.

I have the honour to be,

My Lord and Honourable Sirs,

Your most obedient servant,

(Signed) John W. Ross,

[illegible] AT PRESENT REQUIRED FROM

THE CANADIAN CHARTERED BANKS.

The memorandum which follows is respectfully submitte to the Royal Commission on Banking and Currency, following the brief discussion of returns in the evidence of the 22nd day. The memorandum represents the views of the following:

Mr. H. R. Jackman	-	Canadian General Securities Ltd
Mr. A. C. Walwyn	-	Dominion Securities Corporation Ltd.,
Mr. D. C. McGregor	-	The University of Toronto,
Mr. J. F. Parkinson	-	The University of Toronto,
Mr. G. E. Jackson	-	The University of Toronto.

These men, acting as individuals and not in a rep resentative character, have constituted themselves an unoffi ial committee for the purpose of analyzing the returns. The committee was obliged, for obvious reasons, to restrict its membership to persons in the neighbourhood of Toronto who are interested in statistics. It presents the following observations:

1. Bank returns exist for two main purposes: to disclose the position of individual banks, and to furnish diagnostic material for business men and others engaged in the study of business conditions. At the time of the last revision of the Bank Act the position of Inspector General had not been created; and a good deal of importance attached, therefore, to the former, as well as to the latter of the above mentioned purposes. Since the details of banking operations are now continuously scrutinized by the Inspector General of Banks, who reports thereon to the Minister of Finance, the position has been radically changed; and the returns required under present legislation are less directly necessary, as evidence of the conditions of individual banks,